FINANCIAL TIMES

Weaving machinery
Speed breakthrough from many sheds
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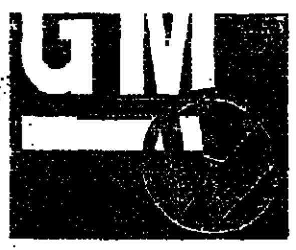

Volkswagen
Painted into a corner?
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US banking
Here comes another wave of mergers
Page 23

Today's survey
International Project Finance
Separate sections

World Business Newspaper http://www.FT.com TUESDAY DECEMBER 3 1996

US economy still showing signs of robust growth

The US economy is still growing robustly, according to two reports out yesterday. Overall manufacturing business conditions improved last month and construction spending surged in October. But the data seemed to unsettle the markets, where stocks and bonds were down in morning trade. Page 18; Bonds, Page 28; World stocks, Page 40

EU finance ministers still deadlocked:

Irish finance minister Ruari Quinn (left) shared a joke with Dutch counterpart Gerrit Zalm as European finance ministers gathered in Brussels. But once talks began, ministers remained deadlocked over a key aspect of a system for ensuring that states in a single currency keep up budgetary discipline after joining. EU diplomats said there was disagreement over the definition of a severe recession that could permit a government to avoid sanctions. Page 16; Bonn hints at softer stance, Page 3; Observer, Page 17

Russian general to go: Gen Vladimir Semyonov, commander of Russia's land forces faces dismissal for "actions incompatible with his post", although the order dismissing him had not yet been signed last night. The general denied any wrongdoing. Page 2

The Exxel Group, a leverage buyout group headed by former Citibank executive Juan Navarro, paid $440m for Supermercados Norte, Argentina's second biggest supermarket chain by sales. Given a buoyant Buenos Aires stockmarket and investors' apparent appetite for Argentine supermarket chains, Exxel also plans a public share offering. Page 19

China reassures Pakistan: China yesterday sought to reassure Pakistan that closer ties with India would not be at the expense of relations with Islamabad. Page 8

Richemont, Swiss-based owner of Rothmans tobacco and Vendôme luxury goods, raised interim operating profits by 21 per cent to £453.5m ($757m) after a strong performance by its tobacco business. Page 19

UK sets up genetics commission: Britain has set up a commission to advise on human genetics. It will consider social, ethical and economic consequences of developments in the field.

Surgery for Havel: Czech surgeons removed a small malignant tumour from Czech President Vaclav Havel's lung. Doctors believe the illness has been caught at an early stage.

Moldova poll: A leading communist turned social democrat, was elected president of Moldova after beating the former Soviet republic's first post-independence leader in a weekend run-off vote. Preliminary results gave Petru Lucinschi an eight-point winning margin. Page 2

Row over diplomat: France asked Zaire to waive the diplomatic immunity of Ramazani Baya, its ambassador to Paris. Two French boys were killed in a collison with his car last month.

Dissident back in prison: Chinese dissident Chen Longde, who attempted suicide in August, has been sent back to a labour camp after being discharged from hospital, his family said.

Racal Electronics of the UK issued a profits warning that stunned investors, who had been told in August that operating profits were looking good. Shares in the defence and electronics group dropped as it forecast full year pre-tax profits of £50m ($83.5) against £70.4m last year. Page 25 and Lex; London stocks, Page 36

Burmese students protest: About 1,500 Burmese students took to the streets after a peaceful sit-in protest on a Rangoon campus. They were objecting to leaflets urging them to improve their behaviour.

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	6,479.22	(-42.48)
NASDAQ Composite	1,292.74	(+0.13)
Europe and Far East		
CAC40	2,318.63	(+2.97)
DAX	2,858.60	(+13.08)
FTSE 100	4,038.5	(-19.5)
Nikkei	20,674.69	(-345.67)

■ US LUNCHTIME RATES

Federal Funds	5¼%
3-mth Treas Bills: Yld	5.09%
Long Bond	101 15/32
Yield	6.375%

■ OTHER RATES

UK: 3-mo Interbank	6 3/8%	(6 3/8%)
UK: 10 yr Gilt	101 7/32	(101 1/8)
France: 10 yr OAT	106.58	(106.62)
Germany: 10 yr Bund	104.27	(104.38)
Japan: 10 yr JGB	104.7361	(104.2461)

■ NORTH SEA OIL (Argus)

Brent Dated	$23.55	(23.175)

■ GOLD

New York: Comex		
(Jan)	$369.7	(375.0)
London:		
close	$370.85	(371.45)

■ DOLLAR

New York: lunchtime		
£	1.6822	
DM	1.546	
FFr	5.2435	
SFr	1.316	
Y	114.095	
London:		
£	1.6847	(1.6803)
DM	1.5424	(1.5371)
FFr	5.234	(5.2226)
SFr	1.3137	(1.3023)
Y	113.78	(113.8)
Tokyo close:	Y 113.9	

■ STERLING

DM	2.5984	(2.5828)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lts 16.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13		
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk05		
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250		
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70		
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£30.00		
Finland	FM18.00	Jordan	JD1.75	Poland	Zl 6.00	Tunisia	Din2.000		
France	FFr12.00	Kuwait	Fils.750	Portugal (m'land)	Es265	Turkey	L120,000		
Germany	DM4.00	Lebanon	LL3500			UAE	Dh13.00		

Nato to start talks with Russia

West moves to allay Moscow's concerns over arms

By Bruce Clark and Peter Wise in Lisbon

Nato is prepared to offer Russia assurances over both conventional and nuclear weapons in the hope of softening its objections to the eastward enlargement of the alliance, it emerged at a European security summit yesterday.

A meeting in Lisbon of 54 governments from Europe, North America and the former Soviet Union agreed that wide-ranging negotiations on conventional forces in Europe (CFE) would start in January.

The talks, expected to last about 18 months, will aim to update the 1990 CFE treaty which set limits on the tanks, artillery and aircraft held by Nato and the Warsaw Pact. Since then the pact has dissolved and at least three members, Poland, Hungary and the Czech republic, are expected to join Nato by 1999.

The agreement on a CFE review, which corresponds to a longstanding Russian demand, will be followed up with an assurance that Nato sees no reason to deploy nuclear arms on the soil of new members for the foreseeable future, Nato officials said.

They said language to this effect was likely to be endorsed at a meeting of Nato foreign ministers in Brussels next week, but it would stop short of a guarantee not to deploy nuclear arms eastwards under any circumstances.

Diplomats said the western moves were part of a "charm offensive" intended to allay Russia's concerns, which were restated firmly yesterday by Mr Victor Chernomyrdin, the Russian prime minister.

"We have clearly stated our strong opposition to plans to extend, right up to our frontiers, the North Atlantic alliance and its military infrastructure," he told the Lisbon summit of the Organisation for Security and Co-operation in Europe (OSCE). "Surely it is clear that the emergence in Europe of new dividing lines would lead to a worsening of the geopolitical situation in the world," he added.

Russia's president Boris Yeltsin, who caused chaos at the previous OSCE summit in Budapest two years ago with an attack on Nato's expansions plans, reiterated his point in a message to the Lisbon meeting but used softer language: "Europe stands on the threshold of very important decisions. We have to define our position with respect to the main problems of European security, the development of the disarmament process, the adaptation of the CFE treaty, and the future strengthening of the OSCE."

Diplomats said that by stressing the modernisation of the CFE accord, and the upgrading of the OSCE to give it a bigger role in European conflict resolution – two areas where the west was willing to make concessions – Mr Yeltsin was leaving the way open for a compromise with Nato.

Disputes between Armenia and Azerbaijan emerged as the biggest stumbling block to a broad agreement on the construction of a new security system in Europe, including both Nato and the OSCE.

Azerbaijan was threatening to block the summit's final communiqué today unless it includes language that clearly upholds its sovereignty over Nagorno-Karabakh, where ethnic Armenians have proclaimed independence. It was also threatening to block the extension into next year of the current CFE agreement.

Lukashenko shows hard edge, Page 2; Observer, Page 17

Dow Corning offers $2bn for implant claims

By Richard Waters in New York

Dow Corning, besieged by lawsuits over faulty silicon breast implants, yesterday launched a plan to resolve its 18-month bankruptcy, offering $2bn to settle health claims from women and a further $1bn to repay banks, bondholders and creditors in full.

The proposal has already come under attack from lawyers for the women involved, however, and is likely to undergo considerable change before any conclusion.

Mr Stanley Chesley, one of the lead lawyers for the plaintiffs, said of the proposal: "We think it is woefully low."

The amount offered to settle the implant claims is slightly lower than the figure the company was to have paid under a 1993 agreement between all US implant makers and lawyers for the thousands of women affected. Dow Corning is the biggest producer of silicon gel.

The earlier plan collapsed when 440,000 women, many more than expected, filed claims for compensation. That, and uncertainties over whether its insurers would meet part of the cost, eventually led Dow Corning to seek protection against creditors under Chapter 11 of the US bankruptcy code.

The company now proposes that $1.4bn of the settlement should come into play only if a specially convened jury rules that the implants were responsible for the wide range of ailments claimed by critics.

These include a range of connective tissue disorders and damage to the body's immune system. Mr Chesley dismissed this approach as unacceptable.

The differences from the 1993 settlement appeared in part to indicate that Dow Corning viewed the proposal, lodged yesterday with the federal bankruptcy court in Bay City, Michigan, as the first step in a protracted negotiating procedure.

Asked if the plan represented a starting point for discussions with plaintiffs' lawyers, Mr Richard Hazleton, chairman, said: "It's possible. Now that we have it on file, we will be talking to them."

The structure of the proposed $2bn settlement also reflects a sea change in scientific thinking under way in the past 18 months.

A body of studies has built up, suggesting that a link between silicon implants and many of the illnesses claimed has yet to be established.

To resolve this question, Dow Corning proposed a so-called "common issues" trial, under which a jury would be presented with scientific evidence by an independently selected panel of experts.

Though rare, this legal procedure is becoming more common in the US as a way of settling mass legal actions, said Mr Hazleton.

The remaining $600m of the settlement not covered by this hearing would be put in a trust fund and used to meet medical costs not in dispute, Dow Corning added. These include the cost of removing implants, as well as injuries caused when implants rupture or cause internal scarring.

Hands-on approach: Japanese defence agency chief Fumio Kyuma (left), US defence secretary William Perry, US ambassador Walter Mondale and Japan's foreign minister Yukihiko Ikeda reach agreement about military bases on Okinawa. Report, Page 18

Saga Petroleum buys Kuwait oil group

By Robert Corzine in London

Saga Petroleum, Norway's largest independent explorer, has won the auction of Santa Fe Exploration, the Kuwaiti-owned North Sea oil company, for $1.23bn.

Shares in Saga were suspended on the Oslo Bourse yesterday afternoon in anticipation of a formal announcement this morning. Saga's corporate assembly of directors, shareholders, union representatives and government officials, was due to meet last night to give the final go ahead to the deal.

Saga is expected to finance the acquisition through retained earnings and existing borrowing facilities, and will not need to make a rights issue, according to advisers.

The auction of Santa Fe, a wholly owned subsidiary of the state-owned Kuwait Petroleum Corporation, drew numerous bids from international oil companies. The bid by Conoco, the oil subsidiary of the DuPont chemical company of the US, was said to have been "very close" to that of Saga.

Kuwait bought Santa Fe in the early 1980s as part of a controversial diversification strategy.

The acquisition will give Saga a substantial position in the UK oil industry, especially

Continued on Page 18
Lex, Page 18

Malaysia seeks expertise through foreign companies

By James Kynge in Kuala Lumpur

Malaysia's government investment agency, Khazanah Nasional, has adopted a novel industrial development strategy. It will seek to buy or form strategic links with foreign companies that have technologies needed by the country.

Khazanah has identified 19 foreign companies that interest it, senior officials say. They declined to name the companies but said they were of Asian, US and European origin. All were thought able to supply *important technologies,* know-how or strategic positions in key regional markets.

Khazanah is chaired by Dr Mahathir Mohamad, the Malaysian prime minister. Dr Mahathir said recently Malaysian companies should concentrate on overseas investments, a move he believed would lift exports and help cut the country's current account deficit.

The identification of the companies represents an important new direction for Khazanah and Malaysia. In the past, Khazanah has acted as a generally passive holding company for interests in partially-privatised companies. Its assets are now estimated at M$35bn-M$40bn ($13.8bn-$15.87bn) and its new mission is to speed the nation's ascent of the technology ladder.

Typical of Khazanah's new direction is a proposed joint venture with LG Group, the South Korean electronics conglomerate, and Hitachi, the Japanese electronics company, to manufacture advanced semiconductor wafers in Malaysia. Officials did not disclose Khazanah's proposed stake in the venture, yet to be finalised, but said it was substantial. Wafer fabrication was singled out as the "missing link" in Malaysia's industrialisation by the nation's Second Industrial Master Plan 1996-2005, published this month.

The recent acquisition of Lotus, the UK car manufacturer, by Proton, Malaysia's national car maker, did not involve Khazanah. But the fact the deal brought engineering talent Malaysia could not hope to generate internally for many years made it the kind Khazanah was keen to replicate, an official said.

Economists said Khazanah's intention to venture abroad is driven by powerful factors. A central target in Malaysia's 1996-2000 plan is for productivity gains to contribute 41 per cent of gross domestic product growth, up from 28.7 per cent in the last plan.

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هكذا من الأصل

EU urges incentives for employers and jobless to tackle unemployment and 'dependency culture'

Call for social security systems reform

By Caroline Southey in Brussels

European Union social affairs ministers yesterday backed calls to reform social security systems that hinder job creation, for the first time accepting a link between generous social protection and Europe's unemployment problem.

The policy statement, agreed at a social ministers' meeting, marks a significant shift in thinking among member states. Countries such as Belgium, Germany and France have resisted openly linking Europe's generous social protection schemes with its high rates of unemployment.

"This is the first sign that the debate is changing. Member states are finally beginning to accept that inflexible benefit systems can artificially increase levels of unemployment," an EU diplomat said, adding that most countries accepted it was no longer possible "simply to underpin the dependency culture".

Agreement on the resolution comes weeks after a furious row in the European Commission over whether or not to publish statistics linking high unemployment to labour market rigidities. An EU official said the Commission had to "tread carefully" on the issue of market deregulation. "This is a very delicate issue for most member states," he added.

The resolution says member states should "incorporate into their social protection policies . . . the objectives of combating employment and re-integrating the unemployed into economic life". It urges governments to avoid "excessive charges on taxes and labour" which could have a "detrimental impact on employment".

The resolution calls on member states to build incentives into social protection systems by tackling the "unemployment trap". Most EU social benefit schemes discourage job seekers from taking up low-wage employment because benefits are often higher than potential wages. "The issue is how we can build incentives into benefit systems for the jobless and for employers," the diplomat said. Member states are urged to overhaul benefit systems, tax regimes and compulsory deductions from wages to give people incentives to seek work, and employers an incentive to recruit from the jobless.

However, the resolution also contains a clear commitment to social protection schemes, pointing out they "can make a significant contribution to the maintenance of social peace" and "can contribute considerably to the positive economic development in the EU".

The commitment to review social protection schemes is echoed in a report on employment and growth, agreed jointly by social ministers and economic and finance ministers yesterday. The report will be passed on to the heads of government summit in Dublin next week.

The report points out that "non-wage labour costs are too high, due in particular to social-insurance contributions and to ill-balanced taxation on the different sources of income".

In the wake of the French truckers' dispute, the French government indicated yesterday it intended to make a fresh push to harmonise working conditions within the European Union, even to the extent of removing the UK's right to opt out of certain social legislation, writes David Buchan in Paris.

In the 1991 Maastricht treaty negotiation, the UK was given an opt-out from most subsequent social legislation by its partners, which signed a separate "social protocol" enshrining their wider legislative ambitions in this field.

Yesterday, a government minister said France would now like to use the current inter-governmental conference to integrate this social protocol into the treaty, thereby making it apply to all EU members, including Britain.

The French government's concern about "social dumping", the term for competitive debasement of pay and work conditions, appears to have been fuelled by the French truckers' protest.

The latters' working conditions are in part blamed on competition from other European hauliers, destined to become more intense in 1999, with the complete deregulation of road transport to allow hauliers from one EU country to carry purely internal freight within another EU state.

Mr Bernard Pons, French transport minister, is said to intend now to redouble his efforts for EU harmonisation around the improved terms French truckers have won, including pay for hours spent waiting as well as driving, and a reduction in the retirement age from 60 to 55.

Yesterday, Mr Michel Barnier, France's EU affairs minister, delivered a broadside against a UK company which he alleged was infringing EU law by offering "cheap labour" to hotels in his Alpine constituency in Haute Savoie.

Brandishing a circular letter from Hotel & Catering Staff Supplies, a Rotherham-based company in the UK offering to supply hotel staff at rates some 8-20 per cent cheaper, because of welfare charges lower in the UK than in France, Mr Barnier said he was "horrified" a UK company should apparently be helping native Savoyards escape French social security.

But the Rotherham company said it only hired non-French nationals to work in France, and insisted it was perfectly legal for UK citizens to work on short-term contracts in France while continuing to pay UK social security.

Mr Barnier's aides did not dispute this interpretation of the law.

Moldova poll victor sets out priority

By Matthew Kaminski in Kiev

Mr Petru Lucinschi, the Moldovan president-elect, yesterday said resolving the conflict with the Russian-speaking separatist region of Trans-Dnestr would be his top priority.

The parliamentary speaker ousted the incumbent, Mr Mircea Snegur, in Moldova's first presidential elections on Sunday, winning 54 per cent of the vote, results showed yesterday.

Turnout was 73 per cent. The defeat of Mr Snegur marks only the second democratic handover of power in the former Soviet Union. Ukraine was the first case.

The Organisation for Security and Co-operation in Europe, which sent observers, said the elections were free and fair and noted no serious irregularities.

Mr Lucinschi, 56, called the stalemate in Trans-Dnestr, a region of 700,000 people that split after a brief war in 1992, a "painful headache".

Trans-Dnestr, where Russian troops are based, undermines Moldova's attempts at attracting foreign investment and tapping international capital markets with a $50m eurobond issue next year. Numerous peace talks have broken down.

The region plans its own unrecognised poll later this month which Mr Igor Smirnov, the self-styled president, looks certain to win.

Mr Lucinschi, who doubled his performance in the first round of voting, may be able to offer the Trans-Dnestrian leadership a sweeter autonomy deal than the distrusted Mr Snegur, observers said yesterday.

Backed by left-centre parties, Mr Lucinschi's campaign sought out ethnic minority voters and promised warmer relations with Russia, the small country's chief trading partner and energy supplier.

Mr Snegur, a moderate in office, embraced nationalist campaign themes in Sunday's poll. He won 46 per cent support, gaining little on his performance in the first round on November 17.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone ++49 69 156 850. Fax ++49 69 596 4481. Represented in Frankfurt by J. Walter Brand, Wilhelm J. Brüssel, Colin A. Kennard as Geschäftsführer and in London by David C.M. Bell, Chairman, and Alan C. Miller, Deputy Chairman. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
GERMANY:
Responsible for Advertising: Colin A. Kennard. Printer: Hürriyet International Verlagsgesellschaft mbH, Admiral-Rosendahl-Strasse 3a, 63263 Neu Isenburg. ISSN 0174 7363. Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
FRANCE:
Publishing Director: P. Maravigna, 42 Rue La Boétie, 75008 PARIS. Telephone (01) 5376 8254. Fax (01) 5376 8253. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN 1148-2753. Commission Paritaire No 67808D.
SWEDEN:
Responsible Publisher: Hugh Carnegy 468 618 6088. Printer: AB Kvällstidningen Expressen, PO Box 6007, S-550 06, Jönköping.

Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL.
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VW bullish in GM dispute

Volkswagen, the German car manufacturer, yesterday cocked a snook at General Motors and its Adam Opel subsidiary by promoting Mr Javier Garcia Sanz to the crucial boardroom post of head of group purchasing.

Mr Sanz is one of eight managers whose dismissal GM had demanded as a condition for an out-of-court settlement of its US lawsuit against VW over alleged industrial espionage.

Instead, Mr Sanz has been promoted to the job vacated last week by the resignation of Mr José Ignacio López, the fomer GM executive at the heart of the battle between the two companies. Mr Sanz and seven other former GM managers moved to VW soon after the defection of Mr López, in 1993.

VW also promoted Mr Rolf Zimmermann, a former GM manager unconnected to the "López affair" to become head of group logistics. Mr Zimmermann, who has headed production at Skoda, VW's Czech subsidiary, since early this year, formerly ran Opel's main Rüsselsheim plant in Germany.

VW's shares fell by 5 per cent to DM587 yesterday on the back of foreign selling as investors reacted to the latest twists in the affair.

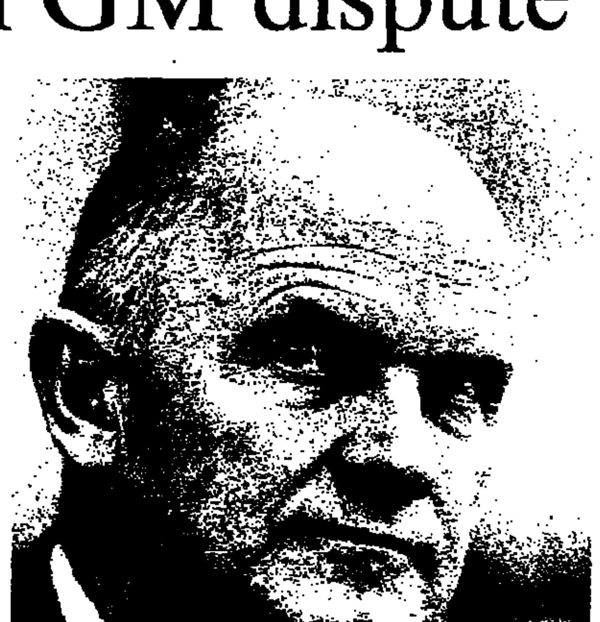
The promotions demonstrate VW's unyielding approach to the acrimonious battle with GM, in spite of a number of legal setbacks suffered recently in the civil and criminal cases in which it is involved in the US and Germany.

In a further indication of its resolute public approach, VW sources yesterday defended its decision to pay Mr López a substantial financial settlement. It is even considering employing him as a consultant in future.

GM had demanded the outright dismissal of Mr López, and the seven managers who followed him. Apart from the resignation of Mr López, VW confirmed Mr José Manuel Gutierrez, another of the seven, had resigned last week.

In spite of its apparently bellicose approach, VW claimed it was prepared to settle with GM. The company claimed it had approached GM three times, but had been rebuffed – partly because of internal divisions between GM's hawkish managers in Europe and more compromise-minded staff in the US. GM has denied any split and accused VW of disinformation. The VW sources said they remained confident about VW's legal position, in spite of an announcement expected shortly from German criminal prosecutors that they will launch proceedings against Mr López and two other executives who moved from GM.

According to VW, the criminal case will be limited to the relatively minor charge of copying and not returning proprietary documents, rather than putting them to use at VW or conspiracy to disadvantage GM or Opel. The sources claimed GM only brought this year's US civil action to embarrass VW after it became clear that the German criminal case would not be as comprehensive as GM had hoped.



Resolute in negotiations: Ferdinand Piëch, VW chairman

According to VW, the two companies have already held talks about meeting GM's demand for substantial financial compensation, possibly in the form of purchases of car parts from Delphi, GM's components subsidiary. VW was also believed to have been prepared to market its products less aggressively in some unspecified regions where GM is trying to gain market share as an additional concession. A major sticking point was, however, the precise form of words of a document which VW would have signed accepting some regret for the affair.

One problem was believed to have been whether signing such a document might have constituted a tacit admission of guilt by the signatories.

In spite of the uncompromising approach adopted by both sides in their battle, it is believed Mr Ferdinand Piëch, VW's chairman, has become less obdurate in recent weeks. With the renegotiation of his own employment contract looming next year, Mr Piëch may have grown more sensitive to the wider commercial and political implications of the dispute for VW.

Haig Simonian

Business hits at Swiss poll result

By William Hall in Zurich

Switzerland's overwhelming rejection of a liberalising of the country's labour laws over the weekend was sharply criticised by Swiss employers yesterday.

The Arbeitgeberverband, the Swiss employers' association, said the rejection had sent a "regrettable signal", and Switzerland had missed an opportunity to give its depressed economy a boost.

In a referendum, 67 per cent of Swiss voters rejected a change in labour laws which would have opened the way for more overtime working and lifted a ban on Swiss women working night shifts. It was one of the strongest No votes in a country which has more referendums than anywhere else in the world.

The decision will be seen as a sign of Switzerland's unwillingness to embrace more modern labour practices. But Swiss voters also narrowly rejected a tightening of its laws on asylum-seekers which could have had a more damaging impact on the country's international image.

The strength of the opposition to the proposed liberalisation of Swiss labour laws surprised some observers. It was rejected by every canton and by more than two out of three Swiss voters.

The proposed changes to the labour law would have ended the ban on women working night shifts in industry, and extend the definition of the normal working day from 8pm to 11pm. The current law only allows work from 6am to 8pm and this makes it hard to schedule two-shift working.

Companies can work longer hours but they need to get official authorisation. The change in the law would also allow Swiss shops to stay open on six Sundays a year.

The proposal automatically to turn away asylum seekers without the necessary documents, and to require others to turn over any earnings to the Swiss government to cover their upkeep, was defeated by 53.7 per cent of the voters. The rightwing Swiss People's party had sponsored the initiative because it believed the current laws allowed "clandestine immigration".

The proposal had struck a strong chord with Swiss voters, who are worried about losing their jobs to foreign workers and upset at the scale of the taxes needed to finance asylum-seekers.

The Swiss government, firmly against the proposal, had been concerned a vote in favour of taking a tougher line on foreign asylum-seekers would worsen its problems in repairing its international image in the wake of accusations about its wartime role in turning back Jewish refugees.

Swiss voters have traditionally rejected earlier anti-foreigner initiatives from the Swiss People's party. But the narrowness of the vote and the strong support for the proposal in the German-speaking cantons are a sign Switzerland is becoming less liberal.

Lukashenko shows firm hand

Belarus crisis has strengthened president, says **Matthew Kaminski**

President Alexander Lukashenko of Belarus yesterday showed the Organisation for Security and Co-operation in Europe some of the firmness he has inflicted on his parliamentary opposition.

In response to US criticism of his growing authoritarianism, he said: "It is bad when states use double standards in their foreign policy." When a Norwegian reporter asked whether Belarus was a pluralist democracy, the president shot back: "More so than your country, I assure you."

He told the European security summit in Lisbon: "There is no political crisis in our country, and there is not even a hint of a split in our society – about whose existence our internal opposition is so firmly convinced."

He added: "Nobody has the right to declare illegitimate the democratic expression of our entire people," referring to the controversial referendum on November 24 that he used to extended his presidential term beyond 2000 and remove opposition deputies from the parliament.

The US had called the vote – which observers criticised and which was held in defiance of standing law – "a sham". But the Kremlin, the president's chief ally, warmly backed him, noting "no grounds" for considering the vote illegitimate. In return, Mr Lukashenko is likely to push for union with Russia next year.

After the referendum Mr Lukashenko last week swept aside the last obstacle to enforcing his new constitutional order by barring from the chamber several dozen deputies who had been holding out.

President Alexander Lukashenko: combative against critics

The new lower house was formed on Thursday. The 110 – out of 199 – deputies voted in chorus, under Mr Lukashenko's paternal gaze. As the rest had been dismissed, no dissent was heard. The president wrote and signed a law dismissing an impeachment motion against him.

The new constitution creates a Soviet-style vertical political structure where the president dictates policy. It gives the president 30 new powers and control of appointments to the courts and the new bicameral parliament. He can call a state of emergency and referendums.

His victory was all the sweeter for looking so precarious in the week before the vote.

As several cabinet members – the prime minister included – resigned and sizeable public protests were held, the opponents in parliament had grounds for optimism. Some predicted the president might back down from his push for broad powers. Others called for impeachment.

But Mr Lukashenko engaged his disparate opponents in talks. As a compromise deal broke down, he blamed the deputies on the fawning state television and forced through the referendum. Afterwards no more than a few hundred protested against the constitutional changes.

Many Belarusans shunned questions about the new order. Svaboda, an opposition newspaper printed in neighbouring Lithuania, disappeared from the streets and vendors speculated that the latest edition had been stopped at the border.

An opposition leader, Mr Stanislau Bohdankebich, whose political future now looks bleak, said he could now only "wait for the Belarusan people to wake up". That, however, is unlikely.

Mr Lukashenko knows his electorate well. A dynamic speaker, he has a natural flair for modern politics in a Soviet setting. His popularity ratings stay high even as the economy stagnates. He even seems to have emerged stronger from the crisis.

"His great advantage is a benign, ill-informed public," a western ambassador says.

Additional reporting by Bruce Clark and Peter Wise in Lisbon

EUROPEAN NEWS DIGEST

Moscow sacks another general

The shake-up at the top of the Russian military claimed a fresh victim yesterday as the defence ministry announced that General Vladimir Semyonov, commander of the ground forces, had been fired for activities "which slurred the honour and dignity of a serviceman". But there was confusion later after the presidential press service said that although President Boris Yeltsin "essentially agreed" with Gen Semyonov's dismissal, he had not yet signed the necessary decree.

Gen Semyonov, who was appointed in 1991, protested against his dismissal. "I have not received any clear or convincing reasons for my dismissal from the defence ministry," he said. However, the unusually harsh wording of the defence ministry statement suggested there had been a sharp clash.

Several generals have been sacked in recent months as the new defence minister, Gen Igor Rodionov, has swept away much of the old guard responsible for the conduct of the Chechen war. *John Thornhill, Moscow*

EU acts on sex discrimination

European social affairs ministers yesterday cleared the way for agreement on rules which will ensure that plaintiffs and defendants share the burden of proof in sex discrimination cases.

Under the directive a plaintiff will have to provide evidence of discrimination. The burden of proof will then rest with the defendant who will have to prove that there was no infringement of the "principle of equal treatment".

"At the moment the burden of proof lies with the plaintiff. This directive will shift that burden to the defendant, usually an employer," Mrs Eithne Fitzgerald, the Irish labour affairs minister, said. This would "meet a major concern of women's groups". The directive will not apply in the UK as it was introduced under the social protocol of the Maastricht treaty from which Britain has an opt-out. *Caroline Southey, Brussels*

Estonia cabinet posts agreed

Estonia's new minority government yesterday announced six more cabinet appointments to the 18-member team. The Baltic state's sixth government fell on November 22 when the Reform party, the junior coalition partner, walked out after Mr Tiit Vähi, prime minister, signed a secret co-operation pact with the rival Centre party.

The ruling Coalition party and Rural Union, which hold 41 out of 101 seats in parliament, rebuffed the prime minister's attempt at bringing Centre into the cabinet, however, and opted for a less stable minority government.

Five of the six new portfolios previously held by Reform go to non-party ministers in a move aimed at getting opposition party support in parliament. Mr Toomas Ilves, former Estonian ambassador in Washington, becomes foreign minister while the economics ministry goes to Mr Jaak Leimann. *Matthew Kaminski*

Hospital stay for Havel

President Václav Havel of the Czech Republic is to remain in hospital for up to 10 days after doctors yesterday removed a small malignant tumour and half of one lung, but his office said his prognosis was "favourable".

Mr Havel, 60, a heavy smoker who lost his wife Olga to cancer earlier this year, was admitted to hospital last week after failing to throw off a persistent flu. After tests, doctors decided to undertake exploratory surgery to investigate a small spot on his lungs, which led to the removal of half of his right lung. Mr Havel is carrying out presidential duties from hospital. *Vincent Boland, Prague*

BT seeks fines for laggards

British Telecommunications, warning against a slippage in the timetable for European telecoms liberalisation, yesterday called for fines on countries delaying reforms.

Sir Peter Bonfield, BT chief executive, said the EU should be ready to impose financial penalties on "reluctant implementers" that had a "tradition of non-compliance" with EU directives.

The BT chief, who was speaking at an FT conference on world telecommunications, was believed to be referring to EU countries such as Spain and Portugal which as yet have no independent regulators. *Nicholas Denton, London*

Serbia under protest pressure

Tens of thousands of demonstrators marched through the snow in Belgrade yesterday, continuing their protests against President Slobodan Milosevic and his annulment of local elections claimed as victories by the opposition.

The regime had warned that police would move against the protesters but, apparently fearing bloodshed, they were reluctant to move against the crowds.

Serbia came under pressure at the European security summit in Lisbon yesterday to show restraint. Trying to stop the protests through violence or threat of violence "would dramatically increase the distance between the regime in Belgrade and the international community," said Mr Carl Bildt, international mediator for Bosnia.
Laura Silber, Belgrade, and Peter Wise, Lisbon
Editorial comment, Page 17

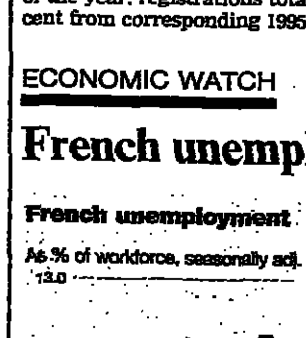
French car sales tumble

The French car market ran out of steam in November, with registrations of new vehicles falling by nearly 22 per cent to 135,294, against 172,849 in November 1995, according to the Committee of French Car Manufacturers.

A sharp decline had been widely expected after the ending earlier in the year of a government incentive scheme for new car buyers, but the extent of the downturn surprised some analysts. In the first 11 months of the year, registrations totalled 1.98m - ahead 11.2 per cent from corresponding 1995 levels. *David Owen, Paris*

ECONOMIC WATCH

French unemployment eases



French unemployment edged down by 12,000 – or 0.4 per cent – in October, but the monthly jobless rate remained a record 12.6 per cent. Figures released by the labour ministry put the number unemployed at fractionally over 3.1m – an increase of 5.3 per cent on a year ago. The month-on-month decline had been particularly pronounced among men under 25 years old. Mr Alain Juppé, prime minister, described the figures as "encouraging" but did not want to sound triumphant over one month and one set of numbers.

His comments came as Mr Jean Gandois, head of the Patronat, the employers' federation, called for greater flexibility in the labour market. "We must exempt the act of taking people on from every formality," he said. Meanwhile, the National Federation of Public Works has predicted a sixth consecutive recessionary year in 1997 in the public works sector. It said that activity would fall by 5-7 per cent and that unemployment in the sector would rise. *David Owen, Paris*

Lawyers warn on dangers of loophole

By Graham Bowley, Economics Staff

The single European currency could be used as an excuse to get out of loss-making financial contracts, prompting a flood of costly and disruptive litigation, bankers and lawyers are warning.

They are pressing governments to close a loophole they believe has been introduced in draft legislation drawn up by the European Commission which is to be presented to European heads of state at their Dublin meeting this month.

Legislation to ensure continuity of agreements may be used to get out of obligations

The legislation was meant to guarantee the continuity of financial agreements such as bond and derivatives contracts during the change-over to European economic and monetary union. It was drawn up after long consultation between the Commission and banks.

The fear was that contract holders might exploit "change of circumstance" clauses in their contracts to claim that Emu freed them of their obligations.

The introduction of the euro will mean contracts denominated in participating currencies will have to be converted into the euro. Bankers said they were satisfied with early copies of the draft legislation but that later versions had been amended. They believe looser wording means that "change of circumstance" clauses could be exploited to get out of obligations.

There is a concern that some European banking groups may have lobbied hard to amend the draft because they wanted to retain the freedom to renegotiate their contracts if they proved loss-making.

The controversy surrounds Article 3 of the European Commission's so-called Draft 235 legislation.

Early drafts stated that the introduction of the euro should not alter financial contracts, subject to "anything which parties may have expressly agreed with reference to the introduction of the euro". But the latter reference to the euro was excluded from later drafts.

The tension has arisen because European authorities have tried to strike a balance between giving absolute priority to the terms of individual contracts on the one hand and to overriding them where necessary to provide absolute continuity during the change-over to the euro on the other.

Mr Cliff Dammers, secretary-general of the International Primary Markets Association, which represents banks and securities firms, said: "The danger is that by leaving the legislation so unspecified people will use the change of circumstance clause to try to get out of contracts".

The UK Treasury said it had consulted widely among London-based financial institutions and that the proposals had met with general approval.

The European Commission said the draft legislation was nearing the final stages of discussion although it was possible it could still be changed. Final agreement is expected within the next two months.

Mr Richard Tredgett, an associate at Allen & Overy, the law firm, said: "The message needs to be driven home to people drafting this legislation that we are concerned about this. The legislation has gone so far in eliminating most risks that we need to put it all beyond doubt."

Anxiety over Emu starts to creep in

Banks are showing the strain as costs rise, says George Graham

Preparing for Emu

Mr Jan Kalff should be calmer than most European bankers about the imminence of the first stage of European monetary union. His country, the Netherlands, is as sure as any European Union member that it is likely to join the first wave of Emu in little more than two years; his bank, ABN-Amro, began detailed preparations for the single currency two years ago and started to make provisions for the transitional costs last year.

Yet even Mr Kalff finds no room for complacency.

"I am reasonably confident, but no one in the bank can guarantee to me that we will be ready on time. From time to time we still come across something that no one had thought about," he said.

In the last few months a similar edge of anxiety has crept in for many bankers in Europe. Panic is still a long way off, but some of their early confidence that they could take Emu in their stride has begun to erode in the face of the technological and organisational complexity of preparing for an event which remains so ill-defined.

In June, a survey of 205 banks for Cap Gemini Sogeti, the Paris-based computer services and consulting group, showed that 91 per cent were confident their information technology infrastructure would be ready to meet the timetable for Emu. This was a remarkable level of optimism, considering 54 per cent had yet to formalise a strategy and only 15 per cent had allocated a budget for the necessary changes.

Mr Colin Stringer, managing consultant at Hoskyns, Cap Gemini's UK consulting arm, says a much greater degree of urgency is now evident.

Initial estimates compiled 18 months ago by the European Banking Federation suggested the conversion might cost the banking system a total of Ecu8bn-Ecu10bn ($10.1bn-$12.6bn) – around 2 per cent of annual operating costs over a three to four year period.

But that estimate was based on the assumption that the single currency would be introduced in a "Big Bang". The phased introduction at the wholesale level in 1999, to be followed three years later by a full scale switch to euro notes and coins, is generally reckoned to double the costs.

Nevertheless, individual banks have suggested that their own estimated costs will be manageable: about DM150m ($98m) for Bayerische Vereinsbank, for example, £300m ($501m) for Barclays Bank, Fl 200m ($117m) for ING Group, FM150m ($32.6m) for Postipankki and Sch500m ($46m) for Creditanstalt.

Revenue losses, on the other hand, now look likely to be much greater than initially expected. Emu will wipe out foreign exchange trading between member currencies, taking a huge slice out of revenues for some continental banks. But it will also reduce other treasury income and cut earnings from cross-border payments and correspondent banking relationships.

Merita, the Finnish banking group, estimated last month that it would lose FM200m-FM300m a year in revenue as a result of Emu, more than the direct cost of preparing for the single currency, which it put at FM200m in total.

Banque Nationale de Paris has circulated a leaflet to its banking partners warning that the euro, coupled with the new Target system linking national payment mechanisms across Europe, will lead to a significant reduction in the number of accounts it keeps with correspondent banks.

What has bankers most worried is their dependence on factors outside their direct control: on software houses, which they can hurry along but cannot absolutely direct, and on governments, which they can neither hurry nor direct.

The immediate problems lie in the wholesale banking market, where the changeover to the euro is scheduled for January 1, 1999.

Most software for both the front and back office comes in off-the-shelf packages such as Midas Kapiti and Wall Street. Some vendors have started to organise user groups to look at how they will need to rewrite existing packages, but a tug of war still lies ahead over who will pay for the changes.

Even banks starting from scratch – with a new office or branch overseas, for example – are finding they cannot inoculate themselves against Emu. Requests for proposals now commonly ask software vendors to certify that their package is "Emu-compliant", but so much remains undecided about the workings of the single currency that only the simplest of programmes can do so.

"It is possible to put your hand on your heart and say that your software is Year 2000 compliant. Monetary union may come around at the same time, but they are as different as chalk and cheese," Mr Stringer says.

Preparing a retail bank for the euro opens up a much vaster array of problems – not just IT conversions but also resizing cash machines and tills for the new notes, reprinting brochures, training staff.

But the assumption that the retail phase can wait until 2002 is steadily collapsing.

"It's not possible to ring-fence wholesale transactions, so we believe that the market dynamic in the wholesale sector will spill over into retail," says Mr Stewart MacKinnon, head of the Emu unit at the Association for Payment Clearing Services, the federation which runs the UK's payment systems.

Apacs, however, has decided to go ahead with the development of a euro payment mechanism for large value payments on the assumption that the UK will not be one of the first members of Emu.

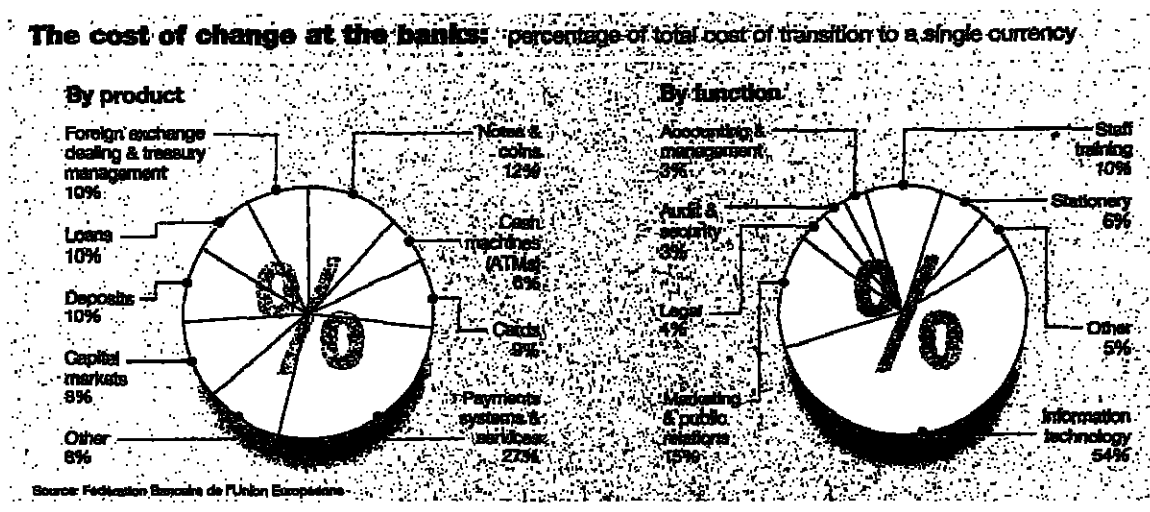
Both France and Germany, which are much more likely participants than the UK, have also decided they cannot separate wholesale from retail and are preparing their retail payment mechanisms to be ready to handle euros from 1999.

That spills over into a range of other decisions. French banks, for example, have now concluded that they will have to print separate cheque books with a clear euro symbol.

For many banks, however, preparation for Emu has become not simply a question of reaching the finishing line in time, but of gaining an advantage over their rivals, especially at a time when so much of their revenue will be wiped out by the creation of the euro.

"It would make us look bad indeed should Emu fail to start and run smoothly. The ability to handle the euro from the start has become a matter of competition between European banks," says Mr Jürgen Sarrazin, chairman of Germany's Dresdner Bank.

The cost of change at the banks: percentage of total cost of transition to a single currency



Source: Fédération Bancaire de l'Union Européenne

Emu: who's going to make it

J P Morgan Calculator 2/12/96

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	100%
Sweden	65%	63%	67%
Spain	65%	64%	49%
Italy	57%	51%	34%
Denmark	51%	46%	41%
UK	41%	40%	38%

The Emu calculator provides a weekly snapshot of the probabilities which the financial markets place on selected countries being willing and able to join Germany in forming a single European currency in 1999.

Currency strategists at investment bank J P Morgan calculate the probabilities from the interest rate swaps market, in which investors swap floating rate interest payments on an investment for fixed-rate ones.

The probability which the markets place on France can be calculated by looking at the current difference between French franc and D-Mark swap rates and comparing it to the difference you would expect to see if Emu were postponed indefinitely.

Bonn hints at softer stance on stability pact

By Lionel Barber in Brussels

Germany last night floated hints of a compromise during tense EU negotiations on a budget stability pact for countries taking part in economic and monetary union.

Mr Jürgen Stark, German state secretary for finance, told a news conference at the finance ministers' meeting in Brussels that there could be a "political agreement" on the outlines of the pact at the EU summit in Dublin on December 13 and 14.

Diplomats seized on his remarks as evidence that an isolated Bonn government was preparing a tactical retreat on its demand for near-automatic sanctions against countries running excessive deficits in the single currency zone.

The stability pact and the size of penalties have turned into the most difficult obstacle to an agreement on currency and budgetary discipline in the future monetary union.

Hopes of a deal rest on striking a balance between Germany's desire for guarantees that sanctions will be applied against fiscal delinquents and the 14 other EU countries which favour a less rigid approach. They want ministers to have the last word on when to apply penalties.

Mr Kenneth Clarke, British Chancellor of the Exchequer, said he was confident there would be movement among various countries, but added: "We have to ensure that whatever emerges is workable and not inflexible and remains completely under the political control of ministers..."

Under the proposed plans, countries running annual deficits above 3 per cent of gross domestic product, the Maastricht treaty's definition of an excessive deficit, could face stiff fines if they failed to curb public spending.

But if a government could show a severe recession was to blame for deterioration of its public finances, it might be able to escape the sanctions, which include public censure and fines.

Germany wants a recession defined as a 2 per cent annual decline in GDP. Others prefer a range covering a fall in output of between 0.5 and 2.0 per cent, thus allowing EU finance ministers discretion.

The central player at the Brussels talks was Mr Theo Waigel, German finance minister, who arrived late after attending the funeral of a colleague in Munich. Mr Waigel is the chief proponent of the stability pact, seen in Germany as an insurance policy against EU leaders softening the entry criteria for the single currency to include weaker currencies such as the lira.

Mr Stark last month threatened to delay a deal beyond Dublin if Germany did not win satisfaction. But he changed tone yesterday: "There will be political agreement over the main elements. What we will not have finished is the final negotiation on the legal text."

The negotiations coincide with renewed debate between France and Germany, the chief proponents of Emu, over the Bundesbank's monetary stance and exchange rate policies.

Mr Jean Arthuis, French finance minister, said ministers had to decide whether a government had an excessive deficit on a "case-by-case basis".

In an implicit criticism of Germany's tough bargaining stance, he added: "When you're in a community you have to try to reach a consensus rather than imposing your point of view".

A political deal on the stability pact would allow EU leaders to declare Emu remains on track when they meet in Dublin, and give officials more time to negotiate the fine legal print before next summer's EU summit in Amsterdam.

EU leaders plan to unveil a deal in Amsterdam covering budget and currency discipline, including a reformed "hub and spokes" Exchange Rate Mechanism governing relations between currencies in and outside the euro zone.

EU finance ministers agreed yesterday to let the Nordic member states keep restrictions on the amounts of alcohol and cigarettes travellers may bring home from elsewhere in the bloc until after the turn of the century, Reuter reports from Brussels.

Under the deal reached at a meeting in Brussels, Finland and Denmark will phase out their travel allowance curbs by December 31, 2003.

Sweden – which refused to agree a final date for ending restrictions – will be allowed to keep its exemption from EU single market rules until June 30, 2000, when it will be reviewed by the EU again.

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NEWS: THE AMERICAS

Ecuador in economic reform drive

By Justine Newsome in Quito

Ecuador's President Abdalá Bucaram has put convertibility of the country's currency "at the heart of a new economic policy" which includes plans for privatisation in the oil and electricity sectors.

Announcing long-awaited plans on Sunday night, Mr Bucaram said the policy was aimed at generating real gross domestic product growth of 4-5 per cent in 1997 and more than 6 per cent thereafter. Annual inflation, currently 25 per cent, and interest rates would be reduced to international levels, he said.

The government plans to make better use of what it regards as under-exploited resources, especially in the energy and mining sectors. In the oil sector, private companies will be able to carry out risk investments in exploration, production, transport and storage. The state company PetroEcuador will be split up and its different activities transferred to the private sector, starting with 49 per cent of its distribution subsidiary Petrocomercial.

In the electricity sector Mr Bucaram pledged another reform of a privatisation law passed by Congress in September. This would allow a majority instead of a minority stake to pass into private hands.

The convertibility programme, which begins on July 1 next year, is modelled on the Argentine system. Ecuador's currency, the sucré, will be pegged to the US dollar at a fixed nominal exchange rate of 4 sucrés to $1.

Under the programme, Ecuador's foreign exchange reserves will have at least to match sucrés in circulation. This limits the central bank's powers to accommodate shocks – from, for example, a drop in the price of oil, Ecuador's largest export – by devaluation of the currency.

Mr Domingo Cavallo, the former Argentine economy minister who has been advising Mr Bucaram, said last week in Buenos Aires that the convertibility project would help encourage support for other necessary reforms in Ecuador by tackling inflation and increasing the purchasing power of the poor.

"It's a method of helping the poor and thereby encouraging them to support other necessary changes," he said.

The plan includes measures to minimise the risk of shocks to the economy. An oil stabilisation fund will accumulate windfall gains when international oil prices rise and release them when prices fall. This would also cushion public revenues from such volatility.

Mr Bucaram said "iron financial discipline" would be necessary for the convertibility plan to work.

The president also announced plans to strengthen the functioning of the ministry of finance as well as a series of tax reforms.

These include compulsory invoicing and elimination of exemptions from value added tax to widen the tax base. There would be reductions in corporate income tax from 25 per cent to 10 per cent for re-invested profits and abolition of an 8 per cent tax on deposits aimed at stimulating the domestic savings rate.

"Many of these reforms coincide with the proposals of the private sector," said Mr Nicolas Espinosa, president of Quito's Chamber of Commerce. "But we do not agree with convertibility as the axis. Growth can be achieved with greater discipline and political decision."

But the government believes Ecuador needs convertibility as a form of economic and financial discipline.

Many analysts see the government itself as the real risk to such an ambitious programme since it lacks technical skills, transparency or capacity for conciliation.

"There will be a year and a half of economic boom but we need structural reforms to have real results in two years' time," said Mr Pablo Lucio Paredes, an economist.

Ecuador: putting the house in order

Economic outlook

	1996	1997	1998	1999	2000
Real GDP growth (%)	1.8	4.0-5.0	6.0+	6.0+	6.0+
Public sector deficit (% of GDP)	4.0	0.0-1.0	0.0	0.0	0.0
Inflation (%, year-end)	26.0	18.0-20.0	Slowing to international levels		

Source: Ecuador government

Rio bank put up for sale

By Geoff Dyer in São Paulo

Banerj, the troubled Brazilian bank owned by the state of Rio de Janeiro, is to be privatised for a minimum price of R$480m (US$466m) at an auction on December 17, the state government announced yesterday.

The Rio government also said the International Finance Corporation, the World Bank's private sector arm, was interested in investing in Banerj, either through loans to the new owner or by taking an equity stake.

An IFC investment in Banerj would be the first time the organisation has participated directly in a privatisation in Brazil, according to a World Bank official in Brasilia.

Seven financial institutions have already pre-qualified to bid for Banerj, including two foreign organisations, Bank of Boston and General Electric Capital Corporation. Potential Brazilian bidders include the two largest private banks, Bradesco and Itaú and Banco BBA Creditanstalt.

The same institutions, together with Golden Cross, have also qualified to bid for Banerj Seguros, the insurance company which is also being sold on December 17 for a minimum price of R$43.3m. The deadline for pre-qualification is December 6.

Banerj, which is Brazil's second largest state-owned bank with 193 branches, was put under central bank control in December 1994 following fears of a liquidity crisis and has been administered by a private bank, Banco Bozano Simonsen since the beginning of this year.

In September the government approved a plan to split the bank into two before the sale. The new bank, which will take on the structure and assets of Banerj, will be created with a US$200m capital injection from the existing bank. At the end of last year Banerj had negative shareholders equity of $1.8bn.

The auction will use the closed envelope bidding method which the state of Rio adopted for the successful sale of its electricity distribution company, Cerj, last month. The eventual sale price for Cerj, which was acquired by a consortium led by Chilectra of Chile, was 30 per cent higher than the minimum price.

The Banerj auction will give an indication of the potential demand for Banespa, the São Paulo state bank, which was transferred to the federal government last week and which is now a possible privatisation candidate.

An independent institution is due to be appointed shortly by the Brazilian government to administer Banespa, which was the largest of the state-owned banks.

The World Bank has already lent money to the Brazilian federal railway system to help its preparations for privatisation. It is also considering a number of other loans to Brazilian state governments, including Rio de Janeiro, to assist administrative reforms.

Peruvian leader's popularity plummets in spite of acceptance into Apec

Old Fujimori magic loses its sparkle

The president who once could do no wrong now appears unable to do much right.

Even Mr Alberto Fujimori's diplomatic success in securing Peru's acceptance as a full member of the Asia Pacific Economic Co-operation forum (Apec) has failed to halt the slide in his popularity: his approval ratings have moved below the 50 per cent marker, according to almost all Lima's opinion and research organisations.

Polls show the president's once-admired authoritarian streak is now considered his chief defect. A perceived lack of concern for workers' welfare comes second. Though he is feted on foreign trips, two-thirds of Peruvians now say they would not vote for him.

Compounding his problems on the domestic front, Mr Fujimori has found himself uncomfortably at odds with the higher echelons of Peru's ever-influential armed forces, normally viewed as his staunchest allies.

The arrest by military officers last week of General Rodolfo Robles, a respected retired army officer who has been an outspoken critic of human rights violations, has whipped up a storm of protest at home and abroad. Mr Fujimori has been forced into a series of contortions, agreeing with public condemnation of the heavy-handed actions of the supreme council of military justice, while reiterating his unconditional support for Peru's military brass.

The Robles incident has rekindled deep-seated suspicions among Peru's political and intellectual classes of the relationship between President Fujimori and the armed forces. At the same time disapproval of Mr Fujimori's performance among Peru's disadvantaged – always a bastion of support – has risen sharply from 15 per cent early this year to 45 per cent.

"The whole of 1996 has been negative for Fujimori," says Ms Giovanna Peñaflor of the Imasen polling group. "The style that didn't bother people before does now. They see him as eager to cling to power and that's something the Peruvian electorate has always punished."

The once uncannily astute Mr Fujimori has committed a series of political blunders in recent months. The poor timing and subsequent mishandling of his second re-election initiative is the most obvious.

Fujimori: under fire from many directions Reuter

Having first engineered a law of dubious constitutionality, Mr Fujimori's governing alliance then did everything possible to avoid a potentially damaging referendum on the re-election issue. Blatant disregard by the same majority of both the popular will and standard congressional procedures has succeeded for the first time in uniting Peru's generally weak and fragmented political opposition.

Confidence in the government was hardly improved by scandals surrounding the shadowy Mr Vladimiro Montesinos, a central if unofficial figure in the presidential entourage. Charges of the security adviser's involvement with illegal drugs trafficking have been officially scotched, but popular suspicions remain.

Underpinning the political malaise are economic concerns. Anticipated second-half growth has failed to materialise and gross domestic product is expected to register 2.5 per cent growth by the year's end: in effect zero per capita growth.

Businessmen, once unanimously pro-Fujimori, are now vociferous in their complaints that the cooling of what had been considered an overheated economy has been exaggerated. Even this year's economic successes – negotiating a three-year extended fund facility with the International Monetary Fund, debt rescheduling with the Paris Club and the signing of a Brady debt accord – are viewed as craven obedience to unreasonable demands by creditors.

To appease criticism, Mr Fujimori has stumbled into an incoherent series of apparently populist measures. He has announced a cut in the minimum tax on business assets and a reduced income tax rate for agriculture; created "special" import zones in the extreme north and south; backtracked on cutbacks in compensation for arbitrary dismissals; and promised an exporters' incentive package.

He continues tirelessly to criss-cross the country almost daily, inaugurating schools, roads and health posts. But the old magic seems to be losing its sparkle.

Mr Fujimori's popularity decline is, however, "not necessarily irreversible," says Mr Alfredo Torres of the Apoyo polling and research organisation. "The stagnant economy and Mr Fujimori's authoritarianism are the main perceived problems. If he could be more conciliatory and decentralise government, he'd win back a lot of support."

But, for many observers, that would be like asking the leopard to change his spots.

Sally Bowen

NEWS: INTERNATIONAL

Iraq signs up first oil sales contracts

By Robert Corzine in London

Iraq has begun signing agreements with international oil companies keen to buy Iraqi crude under the resurrected United Nations oil-for-food plan, it said yesterday.

Mr Mohammed Saeed al-Sahaf, Iraqi foreign minister, was quoted in Baghdad newspapers yesterday as saying Iraq had already struck deals with foreign companies, though he did not name those involved.

Last week Somo, Iraq's state-owned international oil marketing company, set the price of Iraqi crude at a discount of $1.55 a barrel to Brent Blend, the North Sea crude oil that serves as a global benchmark. The discount will be $3 compared with West Texas Intermediate, the main US benchmark.

'Buying a spot cargo of Iraqi oil is not worth the political fire you'll draw'

In London, the Department of Trade and Industry, which oversees the enforcement of sanctions against Iraq, said more than 40 companies had expressed interest in buying Iraqi crude oil.

Some industry executives thought the first cargoes might be snapped up mainly by crude oil brokers and traders, who have a lower political profile than large, publicly-quoted oil companies. "Buying a spot cargo of Iraqi oil is not worth the political fire you'll draw," said one US oil executive.

He predicted US oil companies wanting to buy Iraqi crude will probably do so initially through brokers, although privately-owned oil companies may be more prepared to deal directly with the Iraqis. He noted, however, that "the economics are not that great for US companies".

Although a number of international oil companies have expressed an interest in buying Iraqi crude, the relatively small amounts involved are expected to limit the number of buyers. Under the UN plan, Iraq will be able to sell $2bn-worth of oil every six months. At current prices, that would require exports of 500,000-550,000 barrels a day.

Aside from the specialised brokers and traders, potential buyers fall into several categories, according to oil traders.

Big buyers of Iraqi crude in the past may be keen to re-establish relationships with Somo. These include companies such as Coastal Corporation of the US, which before the 1990 invasion of Kuwait bought about 10 per cent of Iraq's exports.

But companies which have relied on Saudi Arabia and Kuwait to make up for lost Iraqi exports in recent years may decide not to test their relationships with such big suppliers until Iraq's full return to the market.

Companies which have been negotiating oil development deals with Iraq, such as Elf Aquitaine and Total of France, are also frequently cited as being willing to support Iraq's limited re-entry into world markets by buying early cargoes.

It remains unclear whether Iraq will try to concentrate sales in any particular market. If it wants to maximise revenues, it will probably try to send as much as possible to Asian markets through its Mina Al-Bakr terminal on the Gulf.

Some traders suggest Baghdad may want its limited exports to have as broad an impact as possible, in which case it will want to send substantial amounts to the US and Europe as well.

Zaire rebel forces capture key town

By Michela Wrong in Nairobi

Threats to the stability of central Africa grew yesterday amid reports that Kisangani, the largest town in eastern Zaire, had fallen to Rwandan-backed rebels.

The news came as Zaire accused Uganda of "unprovoked aggression" following further border clashes, and Burundi's civil war showed signs of flaring back into life.

Although reports that parts of Kisangani had fallen to the rebels could not immediately be confirmed, Zairean forces were in retreat elsewhere, leaving the eastern border region in turmoil.

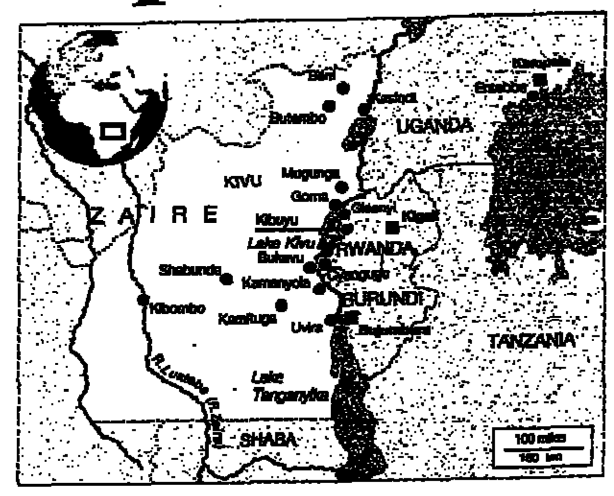
Local witnesses confirmed that the army, which has suffered a series of humiliating defeats since Tutsi-dominated rebels launched their October assault, had been ousted over the weekend from the key town of Beni, 250kms north of Goma. They said Bunia, another town 150 kms to the north, now looked in danger.

But it was not immediately clear whether the soldiers, looting and raping as they fled, had been routed by the Rwandan-backed Alliance of Democratic Forces for the Liberation of Congo-Zaire (ADFL) or Ugandan troops infiltrating from across the border.

Contradicting earlier accounts by military officials, Uganda's defence minister denied Zairean claims that his men had crossed over, saying they had only shelled frontier positions held by an Islamic guerrilla movement opposed to President Yoweri Museveni.

But it seemed increasingly likely that Uganda, a close ally of Rwanda and with a history of tense relations with Zaire, had been tempted to join forces with the ADFL to rid itself of a security threat that has been plaguing its border for weeks.

The ADFL's swift recent advance across the region – which its leader Mr Laurent Kabila yesterday claimed also extended as far as the southern gold and diamond centre of Kamituga, where South Africa's Anglo-American corporation has substantial interests, has had a dramatic spillover effect on Burundi.



Ousted from their camps in south Kivu, Hutu rebels are fighting their way across the country, apparently intent on rebasing in Tanzania. The main rebel group said over the weekend it had stepped up a guerrilla campaign against the Tutsi army and fierce fighting was now raging in Burundi's five main regions, sending thousands of civilians into flight.

The latest regional reverberations have underlined the enormous complexity of the task facing a scaled-down international force still hoping to get aid to hundreds of thousands of stranded refugees from its operational base in Entebbe.

With both the ADFL, Zairean and Rwandan governments proving unco-operative, the force was humiliatingly reduced on Saturday to flying its first consignment to Kigoma in Tanzania, an area accessible to ordinary aid flights.

Killing with kindness in central Africa

Michela Wrong on why the western aid agencies' humanitarian pleas are misguided

When the teeming refugee camps of east Zaire were finally broken up by Rwandan-backed rebels intent on removing the security threat on the border, it was time for some public breast-beating by the aid community.

Yes, aid workers admitted, they had been guilty of naivety at best, collusion at worst. They had continued feeding settlements where genocidal killers plotted to invade Rwanda. The need to save lives had blinded them to the long-term consequences of allowing the situation to fester.

Yet, despite the chorus of "mea culpas", the signs are that the aid community has learnt little from experience. For as the crisis in Kivu enters a new phase, the aid world has once again allowed the humanitarian imperative to drown out awareness of the potential political fallout of its work.

And the fact that western governments are allowing their agenda to be defined by aid workers and journalists focusing on the humanitarian aspects of a highly complex crisis has triggered disquiet within the more critical aid agencies.

"Aid agencies have become the new front line of engagement now that the cold war is over," says Ms Alison Campbell of Care International. "But we don't have a mandate to do this and we shouldn't. It's not our job." When fighting between the rebels, Zairean army and Hutu militiamen severed the refugees from relief supplies last month, aid officials depicted a catastrophe of huge proportions.

The medical charity Médecins Sans Frontières (MSF) calculated tens of thousands were dying of hunger and dysentery. Other organisations predicted a cholera outbreak was already under way. Such warnings prompted a BBC reporter to describe conditions behind rebel lines as "a hidden holocaust".

So when the floodgates broke on November 15 and 600,000 refugees started streaming across the border, the aid organisations' credibility took a battering. In their vast majority, the refugees were in good health, fully capable of undertaking a five-day hike home. "There was definitely far too much speculation at the start, based on a complete absence of knowledge, because no one had people on the ground," says Ms Brenda Barton, spokeswoman for the World Food Programme.

By the time the nightmare predictions had been exposed as non-existent, it was too late. The international community had mandated a multinational force to save the refugees. But it had ruled out disarming the camp hardliners preventing repatriation, a specific demand made by most aid organisations.

'The aid agencies scream for international action but wash their hands of the implications'

Having demanded action, the aid industry was thus presented with an operation likely to have disastrous results: re-establishing camps that were in a state of flux, allowing hardliners to regain their grip on the refugee community and giving a routed Zairean army a chance to counter-attack.

Many aid workers now privately admit the rebels' decision to attack Mugunga camp, triggering the influx into Rwanda, saved the UN from what looked set to be a fiasco of historic proportions. "The rebels' timing was brilliant," confessed a UN official. "They saved us a lot of trouble."

But despite being offered a reprieve, most aid organisations have continued to clamour for intervention, brushing away American claims that the number of refugees left behind could be as low as 230,000, rather than the 800,000 estimated by the UN agencies.

While insisting on action, the agencies refuse to offer concrete advice on how a multinational force can avoid potential pitfalls: how to tackle rebels hostile to its presence, avoid being dragged into a spreading civil war and handle the Hutu militiamen travelling alongside needy refugees.

"It's not our expertise to dictate to any army how it should behave," says Mr Jules Pieters, international co-ordinator for MSF-International. "We are only interested in results." For their critics, such a stance is too easy. "The aid agencies scream for international action but wash their hands of the implications," says a Kigali-based diplomat.

"It's a classic case of power without responsibility." The agencies' persistent alarm calls, their demands for action without apparent concern for the consequences, have highlighted a revolution taking place in the world of relief.

As it becomes increasingly dependent on government – rather than private – funding, the aid establishment has in recent years tended to abandon development work in favour of high-profile, media-aware emergency operations that allow western nations to tell their publics they took effective action.

"Agencies are competing for dwindling resources, competing for contracts and position and profile in the media," says Mr Mark Bowden, East African director of Save the Children Fund – one of the few agencies opposed to military intervention in Zaire. "Philosophically we are bankrupt. 'Go and feed them' is always our response."

Competing for shrinking aid budgets has led to increasingly aggressive salesmanship. "If we make a lot of noise about 20,000 refugees and there turn out to be only 10,000, you should not forget we are reliant on public money," says a Nairobi-based worker. "If we don't have money we can't work. It's sick, but it's true."

The danger, as the west withdraws from Africa, is that policy is being determined by a community with a vested interest in disaster but little at stake when the operations it calls into being go wrong.

As a scaled-down international force debates how best to reach the hundreds of thousands of refugees stranded in Zaire, it should remember that if things go sour, its troops will pay the price. And the aid agencies and media, who stridently demanded the intervention, will be the first to point the finger of blame.

NEWS: WORLD TRADE

German machine makers look east for suppliers

By Peter Marsh in London

Germany's machinery industry is buying more components from the emerging economies of eastern Europe, underscoring efforts by many big German industrial companies to step up outsourcing in order to reduce costs.

The VDMA, the German plant and machinery association, says purchasing grew by a third last year, although problems over quality and reliability of the supplies stopped the figure rising even faster. Further growth is expected this year, although at a lower level.

Last year, Germany imported from eastern Europe DM1.7bn ($1.11bn) -worth of mechanical engineering components, 41 per cent up on DM1.2bn-worth in 1994, according to the VDMA. In 1990 the figure was close to zero.

Most of these components finished up in systems such as machine tools or paper-making machinery, and represent attempts by German industry to capitalise on the lower wage costs in eastern Europe, commonly 90 per cent below those in Germany.

The German industry, which has sales of about DM230bn a year, roughly 10 per cent of German manufacturing output, has been under intense pressure to cut costs as a result of increasing foreign competition.

Mr Herbert Kriegbaum, head of business trends and statistics at the VDMA, said that even with the high growth in outsourcing, the volume of components bought from eastern European countries was fairly low, given the DM80bn a year total materials purchasing bill of the German machinery industry.

"There is a structural change going on but not a flood," said Mr Kriegbaum. Problems of quality had interfered with plans by some companies to push up the level of outsourcing.

In recent months, Krauss Maffei, the big German plastics machinery company which is part of the Mannesmann engineering group, and Schuler, Germany's third biggest machine-tool producer, have both reported problems in guaranteeing the quality of supplies of parts from eastern Europe. Both companies have, as an alternative to outsourcing, announced large investments in their German production operations.

In 1995, total machinery imports from eastern Europe including completed machinery as well as parts, amounted to DM2,4bn, of which parts accounted for 72 per cent, or DM1.7bn. Of the total imports, the Czech Republic accounted for nearly half, with Hungary a quarter and Poland 18 per cent.

● The VDMA is expecting total output of the German machinery industry to rise 3 per cent next year, a modest rise on the 1 per cent growth expected this year. But overall economic demand in the domestic market is expected to remain weak.

Banks finance private Italian power plant

By Andrew Taylor, Construction Correspondent

Italy's growing privately financed energy sector has received a further boost with the signing of banking agreements for an $880m power station at Falconera on the Adriatic coast.

It is the third of five such projects to close agreements with international bankers, taking the total bank finance raised in past 12 months to more than $2bn.

Private-sector investors have been attracted by enhanced state-backed tariff agreements in a bid to encourage extra capacity and reduce the country's need to import electricity. An estimated 15-20 per cent of Italy's electricity is imported.

A consortium of seven international banks have agreed to lend L1,003bn ($660m) of the total cost of L1,330bn of the Falconera project.

A joint venture of Anonima Petroli Italiana (API) and Asea Brown Boveri (ABB), the Swiss-Swedish electrical engineering group, will provide the remainder of the finance and operate the power station under a 25-year concession.

Electricity will be sold to ENEL, the publicly owned electricity utility. Tariff incentives will run for the first eight years.

The 276MW integrated gasification and combined cycle power plant will burn up to 440,000 tonnes per year of visbreaker tar, a heavy oil residue, produced at API's refinery near Falconera.

The seven arranging banks are ABN AMRO, Banca Nazionale del Lavoro, Chase Manhattan, Istituto Bancario San Paulo di Torino, Mediocredito Central, NatWest Markets and Union Bank of Switzerland.

European Investment Bank has agreed to provide some of the finance. Morgan Stanley advised API which will own 51 per cent of the joint venture and ABB which will own 49 per cent.

Banks earlier this year agreed to provide a L732bn syndicated loan for a 350MW privately financed power station at Rosignano in Tuscany, in which Tractebel, the private Belgian power producer, is the biggest share holder. The plant is expected to generate about 1 per cent of Italy's electricity.

Bank finance also been agreed for a $1.1bn 500MW power plant at Priolo in Sicily involving a joint venture between ERG, the Italian refinery group and Edison Mission Energy of the US. Other Italian privately financed power projects include a $1.2bn plant near Cagliari in Sardinia sponsored by Saras of Italy and Enron of the US.

Industrialists see ventures within the EU as means to gain larger market share

South Korean investors target Europe

By Robert Taylor, Employment Editor

South Korea's industrial conglomerates – the chaebols – are spearheading an Asian investment drive into Europe, according to a United Nations report.

The chaebols have become aggressive players in the global economy and are set to propel South Korea into a dominant position in the international market place.

The main thrust of Korean industry's investment drive was initially aimed at China, south-east Asia and North America. However, since 1994 Europe has increasingly become their target. About a tenth of South Korea's overseas direct investment is now into Europe.

"Korean investment came relatively late to Europe following that of Japan," said Professor Cho Yong-doo at the Centre for Korean Studies in Sheffield University. But he believes corporate anxieties about the dangers of exclusion from the European Union and the opportunities of the European single market have helped to stimulate Korean interest.

Professor Cho believes many Korean companies are keen to tap into European technological know-how and improve their corporate image through acquisitions and partnerships.

The UN report on Asian investment into Europe argues: "The primary aim of the chaebols in investing beyond Asia has been to gain market shares in host countries or gaining access to new technologies and skills rather than exploiting low-cost advantages like cheap labour and land."

The lion's share of recent Korean investment into western Europe has been to the UK. The most ambitious commitment came this year from the LG group, which announced a $2.6bn investment plan to build a new chip plant and consumer electronics factory in south Wales.

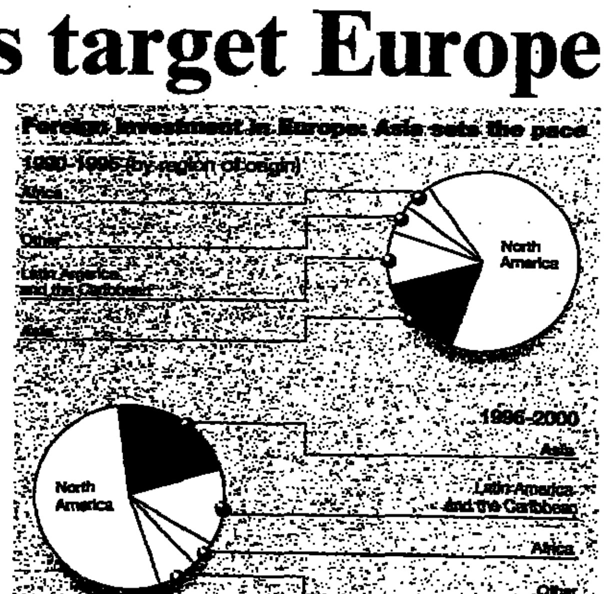
The potentially most interesting thrust is into eastern Europe

This is the largest single foreign investment in Europe and the largest overseas investment by a Korean corporation. The group said its new operations go beyond assembly to include research and development, product development, parts procurement, production, sales and service.

The Korean corporate invasion of the UK began only two years ago with Samsung Electronics' decision to build a £450m consumer electronics plant at Wynward Park in north-east England. Its heavy industries' division has established a £10m factory in Harrogate, while three smaller Korean electronic component suppliers (Poong Jeon; Fine Electromechanics; and Swung Kwang Electromechanics) have located in Yorkshire. Since March 1995, at least 13 other investments in the UK have been announced. Total Korean industrial investment in the UK now amounts to more than $4bn.

But the potentially most important investment thrust is into eastern Europe and the former Soviet Union. Here the most aggressive player is Daewoo, which plans to double its production capacity to 2m cars and trucks a year by early next century – half of it outside Korea. The company is already strong in Poland, with cars, consumer electronics and washing machine plants in Warsaw and a commercial vehicles plant at Lublin. It also has vehicle interests in the Czech Republic and Romania.

All the large chaebols appear to regard Europe as a crucial market for expansion as they face mounting domestic difficulties at home with restive workers, high unit labour costs and sluggish productivity. Professor Cho believes they are positioning themselves to take advantage of further European economic integration. Korean companies dislike suggestions their main attraction in Europe is the manufacture of "cheap and happy" products, insisting their aim is higher quality, higher value goods with a greater European-based research and development content.



EU urged to woo Asian capital

The UN believes the European Commission should encourage Asian companies to invest in Europe by removing regulatory barriers against capital inflows and through the creation of an EU-wide foreign direct investment code to increase transparency and cut transaction costs, **writes Robert Taylor.**

Europe's investment promotion agencies could "play a useful role" by targeting, attracting and helping Asian investors by establishing branches in Asia, says a draft UN report. It urges European companies to establish more joint ventures and strategic alliances or mergers with Asian counterparts. "Local European knowledge and skills could be effectively married in central and eastern European infrastructure projects with Asian firms," says the report.

To date, Asian direct investment in Europe has been relatively small, accounting for only 1 per cent of inward flows into the EU from 1990 to 1993 and less than 0.2 per cent of gross fixed capital formation in 1992-1993. By contrast 3 per cent of European investment stocks, amounting to $27bn, were held in Asia in 1993, even though Asia is the world's fastest growing market and most dynamic base for export production. "However, this picture of 'mutual neglect' hides a basic asymmetry", says the report. "While it is appropriate to refer to European firms neglecting Asia as far as foreign direct investment is concerned, Asian firms are beginning to discover Europe."

WORLD TRADE

NEWS DIGEST

Vietnam venture at risk

The largest single US investment in Vietnam, a $243m joint venture project to develop a stretch of coast, was under threat again yesterday after the local partner said it had asked the authorities to revoke the project's investment licence.

Maryland-based BBI Investment Group received a licence in 1995 to develop the site, on the central coast near Danang.

But Mr Nguyen Xuan Phuc, a member of the joint venture's board, said BBI had failed to meet a Saturday deadline for depositing an overdue $2m into a bank account held by the joint venture.

Non Nuoc Tourist Co, the local partner, had therefore asked for the venture's licence to be withdrawn, he said.

The US group is understood to be having difficulty financing the project, which involves building five hotels and installing basic infrastructure.

Jeremy Grant, Hanoi

Whirlpool credits India's prospects

Whirlpool, the home appliance maker, has made its first foray into consumer finance outside North America with a joint venture with an Indian finance company, Apple Industries. The new venture will help Whirlpool tap the growing white goods market in India by providing finance for its refrigerators and washing machines.

India's refrigerator market is growing by 30 per cent a year, while washing machine sales are increasing by 40 per cent.

Tony Tassell, Bombay

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NEWS: ASIA-PACIFIC

China pledges to continue Pakistan ties

By Tony Walker

China yesterday sought to reassure Pakistan that closer ties with India would not be at the expense of long-standing relations with Islamabad which include co-operation in the military and nuclear fields.

President Jiang Zemin of China told Pakistan's Senate that without stability in the whole of south Asia there "can be no peace and prosperity in Asia as a whole".

Earlier Mr Jiang had said "peaceful coexistence" had been the hallmark of relations between China and Pakistan, and this had contributed to regional security.

Islamabad views suspiciously China's efforts to bolster relations with India, fearing this might mean a lessening of Beijing's assistance which has been critical to Pakistani security.

India and Pakistan have fought three wars since independence from Britain 49 years ago. India tested a nuclear device in 1973, and Pakistan is widely believed to have acquired a nuclear capability.

Mr Jiang completed a three-day visit to India on Sunday during which the two sides reached agreement on slashing troop numbers along their disputed 4,500km frontier.

China and India fought a brief but bitter border war in 1962 and relations were chilly until a gradual thaw in the 1980s. Mr Jiang is the first Chinese president to visit India.

Beijing's efforts to improve ties with Delhi are part of regional attempts to build better relations with all its neighbours. Mr Jiang said "close co-ordination" with Pakistan would continue in the political, economic, and technological areas.

China and Pakistan signed seven agreements on Sunday to promote economic and trade co-operation, combat drug trafficking and protect the environment. The accord also covered the establishment of a Pakistani consulate in Shanghai and the continuation of Islamabad's consulate in Hong Kong after it reverts to mainland control on July 1 next year.

China made it clear it would continue assisting Pakistan in the development of a nuclear industry in spite of international concern about Pakistani attempts to acquire a nuclear capability.

"China and Pakistan enjoy good co-operation in the utilisation of nuclear energy for peaceful purposes ... and our co-operation in this regard will continue," Mr Shen Guofang, China's foreign ministry spokesman, said.

The US has accused China of selling sensitive military and nuclear technology to Pakistan. This year it threatened sanctions over the alleged transfer of ring magnets for use in the production of nuclear weapons.

This followed last year's threatened sanctions over the alleged sale of M-11 missiles capable of carrying a nuclear warhead. Beijing denied these allegations, but has also agreed to tighten controls on transfer of missile technology.

China is helping Pakistan build a 300MW nuclear power plant. It is also engaged in joint ventures to produce tanks and aircraft.

Tokyo ministry in talks on break-up plan for NTT

By Michiyo Nakamoto in Tokyo

Japan's telecoms ministry and NTT are discussing a break-up plan for the domestic telephone group which would pave the way for a demerged long-distance operator to enter the international market, Japanese newspaper reports say.

NTT and the Ministry of Posts and Telecommunications have confirmed they are in talks about the possible future structure of the company but denied an agreement had been reached.

The Japanese government faces a self-imposed deadline to decide on NTT's future by the end of this month.

The Nihon Keizai Shimbun (Nikkei), Japan's leading business newspaper, reported yesterday the telecoms authorities and NTT – which have been at odds over whether the domestic carrier should be split up along business lines – had agreed to break up the company into a long-distance carrier and two regional carriers grouped under a holding company.

Analysts believe the broad outline of the reported plan is plausible and welcomed the prospect of a decision in the 14-year-old debate over the future of NTT.

Failure to reach a decision, largely due to the opposing positions of NTT and the ministry, has hampered business decisions in the industry. It has also raised concerns that the stalemate might leave Japan behind in the global race to build an advanced telecoms industry.

Mr Ryutaro Hashimoto, the prime minister, "has to do something to prove he is serious about reform and a decision on NTT is ideal for that purpose," an industry analyst at Nikko Research Centre said.

The plan, which would establish a holding company to enable the demerged companies to operate as a group, would allay NTT's concern that a straightforward break-up would damage its ability to offer a seamless service and hurt its research and development capabilities.

NTT shareholders would get shares in the holding company.

The plan would also enable the ministry to save face after repeated failures to break up NTT because of opposition from the company's powerful labour unions.

The ministry has long called for a break-up on the grounds that NTT's dominance of the local network hampers competition in the domestic market. But amid rapid changes in the international market, political opinion in Japan is moving against a break-up.

The success of the latest plan would depend on the government lifting a ban on holding companies, a step under consideration.

OECD points to five sectors that will benefit from deregulation

Controls 'hit growth potential'

By William Dawkins in Tokyo

Japan could boost its maturing economy's growth rate by six percentage points over the next decade if it lifted government controls in five business sectors, the Organisation for Economic Co-operation and Development said yesterday.

Mr Kumiharu Shigehara, the OECD's head of economics, told a Tokyo symposium Japan would benefit far more than other advanced economies if it deregulated the electricity, airlines, trucking, telecommunications and retail distribution industries.

This year, the OECD is expecting Japanese gross domestic product to grow by 2.2 per cent, up from 0.9 per cent in 1995, but less than half the growth rates achieved in the decade before the economic slowdown started five years ago.

Japan would benefit far more from such deregulation than would the US, where a gain of only 1 per cent would result from the completion of a free market in those five sectors, according to a study delivered by Mr Shigehara at the symposium, organised by the Keidanren economics federation. The UK economy would get a 4 per cent lift, predicted the study.

The initial shock of adjustment, as inefficient companies go out of business, would be greater in Japan than in the less regulated US or UK. However, Mr Shigehara argued that the flexibility of the Japanese labour market, in which employers can quickly adjust wages and reassign surplus workers to new jobs, would help it handle such a transition. Changes in the traditional lifetime employment system were adding to labour flexibility, he argued.

Mr Shigehara highlighted several sectors where recent Japanese deregulation measures have already brought significant gains.

In retailing, the abolition four years ago of an effective veto by small retailers on the opening of new supermarkets has led to a doubling in the rate of closure of small shops and a sharp rise in closure of large ones.

In telecommunications, the banning two years ago of a rule preventing people from owning, rather than renting, portable telephones, has helped the number of subscribers to rise from 40,000 to 12m over the past decade. Subscription fees have fallen by 92 per cent over the same period.

However, the potential is far greater. The OECD estimates that output prices would fall by another 15 to 20 per cent on average in the five sectors picked in its study, assuming full deregulation. Even after the mobile phone revolution, for example, much more could be done in telecommunications, where Japan's international phone charges are 70 to 80 per cent above those in the US and Germany.

Productivity gains of up to 20 per cent could be achieved in the most highly regulated businesses, says the OECD.

ASIA-PACIFIC NEWS DIGEST

Philippines puts on growth spurt

High overseas workers' remittances and strong performance from the construction, transport and telecommunications sectors boosted Philippine third-quarter gross national product (GNP) growth of 6.8 per cent. GNP rose 7.1 per cent for the first nine months against 5.3 per cent for the same period last year.

Remittances from overseas Filipino workers amounted to 28.14bn pesos ($1.07bn). The services sector improved 6.4 per cent in the third quarter and the industrial sector 6.8 per cent, down from 7.2 per cent after contraction in mining. Construction reported third-quarter growth of 12.8 per cent.

Mr Cielito Habito, socio-economic planning secretary, said the government was forecasting 7.2 per cent GNP growth for the full year, in line with its 1996 target of 7-7.5 per cent and, if achieved, a significant improvement on the 5.5 per cent for 1995. *Justin Marozzi, Manila*

Court clears Enron project

The Bombay High Court has cleared the way for construction to restart on the much-delayed $2.5bn Enron power project in India's Maharastra state. The project is the country's biggest and most controversial foreign investment. The court dismissed a petition filed against the project by a union body, the Centre of Indian Trade Unions, closing a chapter in drawn-out delays to the development, widely seen as a benchmark for foreign investment in Indian infrastructure projects. "This is the last critical step in getting the Dabhol power project back on track for completion by December 1998," said Mr Kenneth Lay, Enron chairman and chief executive.

Work had started last year but was halted in August 1995 by a review of the power project by the Hindu nationalist coalition government in Maharastra. Although the state government in January cleared a renegotiated agreement, work had been further postponed by lawsuits and delays in gaining other regulatory approvals.

Enron said work would restart "soon" after financing documents were signed. The project is a joint venture of Enron, General Electric Capital and Bechtel Enterprises. Enron owns 80 per cent of the project, with its partners each holding a 10 per cent stake. *Tony Tassell, Bombay*

Ganges water deal in sight

Mr Jyoti Basu, chief minister of the Indian state of West Bengal, yesterday indicated that Sheikh Hasina, prime minister of Bangladesh, might visit Delhi as early as next week to sign a landmark agreement on the sharing of the Ganges water. The agreement could help improve the lives of 30m-40m people in Bangladesh who face gradual desertification because a dam built by India in 1975 dries up land fed by the river. Mr Basu said at the end of a six-day visit to Bangladesh there had been a breakthrough on the river dispute. The Ganges flows into Bangladesh through West Bengal and has been a bilateral problem for two decades. *Kasra Naji, Dhaka*

New flood of Bhopal claims expected

Patients await treatment for eye and chest complaints outside a Bhopal hospital in the days immediately after the gas leak UPI

More than a quarter of a million fresh claims for injury are expected from victims of the gas leak at a Union Carbide plant in Bhopal, which occurred exactly 12 years ago today.

The flood of fresh cases from the world's worst industrial accident, which killed 4,000-5,000 people, comes as a result of the government fulfilling a legal requirement to renew its appeal for victims to come forward with claims. The new claimants will include children left out of earlier appeals, and others with a wide range of symptoms, such as tuberculosis, that have only recently emerged.

The appeal on December 10 could bring to more than 800,000 the number of Bhopal citizens who have filed for compensation. "The gas diffused throughout all Bhopal, so almost everyone in the city will claim," says Mr K.K. Thassu, a city health director.

At around 1am on December 3 1984, more than 40 tonnes of poisonous pesticide gas leaked from the plant run by Union Carbide, the US chemicals group, on the edge of Bhopal. The gas cloud immediately killed at least 2,000 people living adjacent to the plant, causing thousands of later deaths and creating lung, eye and gastric complaints in hundreds of thousands more.

Government officials are still struggling a dozen years later with a complex, controversial and incomplete compensation programme. The disaster has left thousands of gas-affected Bhopalis suffering twice the national level of health morbidity and a steep rise in cases of tuberculosis. TB incidence in the city is more than three times the Indian average of 19 cases per thousand people, according to health officials.

Union Carbide paid $470m to the Indian government after years of argument and litigation in 1992. So far Rs8.98bn ($251m at present rates) have been paid to 325,000 victims in awards ranging from Rs25,000 to Rs500,000. Union Carbide, which sold its interest to Ever Ready Industries in India after the disaster, is also providing funds for a Rs2.5bn hospital in Bhopal.

A claims panel has decided on nearly three-quarters of the current total of 600,000 claims for injury and loss of life or livelihood. Mr D.S. Jain, registrar of the government-funded claims approval agency, said the remainder of existing claims were less likely to result in awards. But he said the number of new claims, which would have to be taken seriously following the new appeal, was likely to exceed 250,000. Mr Jain said the new claims would mean adjudication could take two years to complete.

Lobby and self-help groups are highly critical of the compensation procedure and other aspects of the aftermath. They claim that medical research and monitoring into the poison effects was ended prematurely and is incomplete, that the site of the Union Carbide plant is still leaching pollutants into water supplies, and that no officials of the US company have been convicted.

"It's a manifestation of a deeper problem, that the government is not interested in providing appropriate care for poor people," said Mr Satinath Sarangi of the Sambhavna Trust, a charity for gas victims.

During the holiday to commemorate the disaster today, demonstrators are expected to burn effigies of Mr Warren Anderson, Union Carbide chairman at the time, and Indian officials of the company. Local groups believe far more people died in the disaster than the official toll of more than 4,000.

Mark Nicholson and Rohit Jaggi

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout: other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	99.8	85.0
1987	105.6	100.7	103.9	97.5	76.1
1988	109.8	103.2	106.8	99.4	71.0
1989	115.2	108.5	109.9	101.4	74.9
1990	121.5	113.9	113.5	104.0	73.2
1991	126.6	116.3	117.3	107.3	74.1
1992	130.4	117.7	120.1	107.0	74.1
1993	134.3	119.2	123.1	106.7	76.6
1994	137.8	119.9	126.5	105.4	74.5
1995	141.7	122.2	129.7	105.4	68.9
4th qtr.1995	2.7	2.2	2.6	0.7	70.1
1st qtr.1996	2.7	2.2	2.7	−0.2	72.0
2nd qtr.1996	2.9	2.4	3.4	−0.3	73.4
3rd qtr.1996	2.9	2.8	3.4	−0.8	73.8
November 1995	2.6	2.1	2.5	0.7	69.9
December	2.5	2.3	2.7	0.7	70.7
January 1996	2.7	2.2	3.4	0.2	71.8
February	2.6	2.0	2.6	−0.7	72.1
March	2.8	2.4	2.2	−0.2	72.3
April	2.9	2.5	3.5	−0.1	73.0
May	2.9	2.3	3.4	−0.1	73.4
June	2.8	2.7	3.4	−0.7	73.9
July	2.9	2.6	3.2	−1.3	73.8
August	2.9	3.0	3.5	−0.3	73.4
September	3.0	2.9	3.4	−0.2	74.2
October	3.0	3.0	3.3		

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.9	95.3	101.4	102.8	118.5
1987	101.3	92.5	103.1	100.0	122.8
1988	102.4	92.3	107.8	96.0	131.0
1989	105.1	94.2	114.0	96.8	123.5
1990	108.4	95.7	120.1	99.7	108.2
1991	111.9	96.8	124.2	103.9	113.2
1992	114.0	95.9	125.6	112.8	114.6
1993	115.4	94.3	125.8	118.8	132.3
1994	118.2	92.8	128.4	118.5	137.8
1995	115.9	92.0	132.5	115.8	138.6
4th qtr.1995	−0.8	−0.7	3.2	−1.2	126.6
1st qtr.1996	−0.3	−0.9	1.8	−0.4	122.4
2nd qtr.1996	0.1	−0.9	1.6	−0.5	121.0
3rd qtr.1996	0.0	−0.8	4.7		118.2
November 1995	−1.0	−0.6	1.2	−0.4	125.9
December	−0.5	−0.8	4.3	−0.9	126.4
January 1996	−0.5	−0.8	−0.1	−2.3	122.7
February	−0.3	−0.9	3.0	−2.4	122.4
March	−0.2	−0.9	2.7	3.4	122.1
April	0.2	−0.9	2.4	−0.1	121.2
May	0.1	−0.8	2.1	−2.5	122.4
June	−0.1	−0.9	0.8	1.2	119.2
July	0.4	−0.8	3.6	−5.6	118.3
August	0.0	−0.7	7.9	−2.2	119.0
September	−0.4	−0.8	3.2		117.1
October	−0.1				

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.6	103.8	107.4
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.8	106.9	109.9
1989	104.2	99.3	117.1	108.0	107.5
1990	107.0	101.0	123.5	110.3	109.9
1991	110.9	103.4	131.3	109.5	107.5
1992	116.5	104.9	138.2	115.4	110.3
1993	121.7	105.1	145.6	119.4	112.2
1994	125.1	105.7	150.8	112.1	110.7
1995	127.4	107.5	155.8	110.8	115.6
4th qtr.1995	1.7	1.3	4.3	3.4	115.1
1st qtr.1996	1.6	−0.2		3.7	113.1
2nd qtr.1996	1.5	−0.6		0.7	110.3
3rd qtr.1996	1.4	−0.6			110.9
November 1995	1.7	1.3	n.a.	4.1	115.1
December	1.8	1.2	n.a.	3.0	114.3
January 1996	1.5	0.0	n.a.	2.0	113.7
February	1.6	−0.2	n.a.	8.1	113.2
March	1.7	−0.3	n.a.	1.0	112.1
April	1.5	−0.5	n.a.	0.0	110.9
May	1.7	−0.5	n.a.	2.0	109.9
June	1.4	−0.8	n.a.	0.0	110.0
July	1.6	−0.7	n.a.	−2.0	110.8
August	1.4	−0.7	n.a.	−4.0	111.2
September	1.4	−0.6	n.a.		110.4
October	1.5	−0.3	n.a.		

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	98.0	104.5	101.6	103.4
1987	105.9	98.1	107.8	103.0	104.6
1988	108.8	102.9	111.1	104.1	102.1
1989	112.6	108.2	115.4	105.2	99.8
1990	116.5	107.1	120.6	109.6	102.9
1991	120.2	105.9	125.8	113.4	100.7
1992	123.1	104.3	130.3	115.6	102.6
1993	125.6	101.6	133.5	118.1	101.9
1994	127.7	102.7	135.9		101.4
1995	130.0	109.7	139.0		101.4
4th qtr.1995	1.9	3.3	2.6		102.3
1st qtr.1996	2.1	−1.2	2.6		101.6
2nd qtr.1996	2.4		2.5		101.7
3rd qtr.1996	1.9		2.6		101.0
November 1995	1.9	n.a.	n.a.	n.a.	102.7
December	2.1	n.a.	n.a.	n.a.	102.3
January 1996	2.0	n.a.	n.a.	n.a.	101.4
February	2.0	n.a.	n.a.	n.a.	101.2
March	2.3	n.a.	n.a.	n.a.	102.3
April	2.4	n.a.	n.a.	n.a.	102.1
May	2.4	n.a.	n.a.	n.a.	101.6
June	2.3	n.a.	n.a.	n.a.	101.5
July	2.3	n.a.	n.a.	n.a.	101.4
August	1.6	n.a.	n.a.	n.a.	101.0
September	1.6	n.a.	n.a.	n.a.	100.5
October	1.6	n.a.	n.a.	n.a.	

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.2	104.8	102.7	101.3
1987	111.0	103.2	111.6	106.5	102.2
1988	116.5	106.8	118.4	109.7	101.0
1989	124.2	113.1	125.6	112.3	105.3
1990	131.7	117.8	134.7	118.8	112.0
1991	140.3	121.7	147.9	129.5	113.2
1992	147.7	124.0	155.9	134.4	109.9
1993	153.9	128.7	161.6	136.7	96.2
1994	160.0	133.5	167.0	137.9	94.2
1995	168.6	144.0	172.2	137.8	91.2
4th qtr.1995	5.9	7.2	3.9	0.9	94.2
1st qtr.1996	5.0	4.8	1.9	1.6	99.2
2nd qtr.1996	4.2	1.5	2.1		103.1
3rd qtr.1996	3.5	0.1			103.6
November 1995	6.0	7.2	3.9	n.a.	94.0
December	5.8	6.5	3.9	n.a.	95.6
January 1996	5.5	5.9	1.9	n.a.	98.1
February	5.0	4.9	1.9	n.a.	99.6
March	4.6	3.6	1.8	n.a.	100.1
April	4.5	2.6	2.0	n.a.	101.9
May	4.3	1.3	2.0	n.a.	103.5
June	3.9	0.6	2.2	n.a.	104.0
July	3.6	0.2	1.9	n.a.	103.6
August	3.4	0.0	1.9	n.a.	103.1
September	3.4	0.2		n.a.	103.9
October	3.0			n.a.	

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	105.1	94.3
1987	107.7	104.9	116.3	107.5	94.6
1988	113.0	108.7	126.2	110.3	101.9
1989	121.8	113.9	137.2	115.1	100.5
1990	133.3	121.0	150.1	122.7	101.4
1991	141.2	127.5	162.4	129.5	104.4
1992	146.4	131.5	173.1	130.5	101.1
1993	148.7	136.7	180.9	130.4	93.6
1994	152.4	140.1	189.5	130.1	94.6
1995	157.6	146.0	198.0	134.2	91.2
4th qtr.1995	3.2	4.4	3.9	4.3	90.5
1st qtr.1996	2.8	3.6	4.4	4.0	90.9
2nd qtr.1996	2.8	2.9	4.2	4.7	92.2
3rd qtr.1996	2.2	2.1	4.5	5.2	93.5
November 1995	3.1	4.4	3.7	4.2	90.2
December	3.2	4.4	4.1	4.8	90.1
January 1996	2.9	3.8	4.0	3.0	90.6
February	2.7	3.7	4.6	4.6	91.3
March	2.7	3.4	4.6	4.4	90.9
April	2.4	3.2	4.3	4.4	91.1
May	2.2	2.8	4.0	4.4	92.1
June	2.1	2.6	4.3	5.1	93.6
July	2.2	2.2	4.4	4.4	93.3
August	2.1	2.0	4.5	5.7	92.4
September	2.1	2.2	4.6	5.4	94.8
October	2.7	2.3			

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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Premier may end Emu waiting game

By Robert Peston in London, Lionel Barber in Brussels and Bruce Clark in Lisbon

Mr John Major, the UK prime minister, will in the next few months move tantalisingly close to stating that sterling would not join a single currency in the first wave if the Conservatives won next year's general election.

But a decision to rule out British participation remains remote for fear of prompting the damaging resignation of Mr Kenneth Clarke, chancellor of the exchequer.

"The gains of having a firmer policy against monetary union would be offset by the inevitable row with the chancellor," said one of Mr John Major's most trusted colleagues. "Anyway everyone knows we would not go in if elected for a fifth term."

Mr Clarke made clear yesterday that he will not tolerate any change in the government's current position of keeping open options on the single currency. He has told friends he will quit rather than agree to a shift.

Reports that Mr Major is close to abandoning the government's wait-and-see policy were slapped down by Mr Clarke as "preposterous". Speaking before a meeting of EU finance ministers in Brussels, Mr Clarke said that shifting the policy "would be no way to fight an election nor to present yourself as a governing party at all".

However, the foreign secretary, Mr Malcolm Rifkind, gave a less aggressive rebuttal. "I'm very happy with the existing policy, I have no reason at all to believe it's going to change," he said.

After conferring with Mr Major, who flew in to join him at a European security summit, Mr Rifkind said that the official Emu position was the one spelled out by him during the Conservative party conference.

Significantly, this omits the stipulation, which Mr Clarke insists on, that the currency option should be kept up to and through the election. Instead, it says ruling out membership now would have a damaging impact on UK influence over Emu negotiations.

Meanwhile, Mr Clarke tried to reassure his more sceptical colleagues that he had won "copper-bottomed" guarantees at the Brussels meeting that the UK will be legally exempt from common rules on currency and budgetary discipline in the event it does not take part in Emu.

Mr Clarke, relishing a chance to show how the UK was playing an active role in the Emu negotiations, said he had won a change in a proposed EU regulation which defines the legal status of the euro.

He told reporters: "We wanted to make it crystal clear that this regulation does not apply to those who opt out. We got it without any particular difficulty."

Mr Clarke also made good his earlier pledge to MPs that he would make no binding agreements on the single currency by placing a "scrutiny reserve" on all decisions at yesterday's the meeting, pending a Commons vote on the Emu preparations. Legally binding decisions would not be taken until next year around the time of the EU summit in Amsterdam, he added.

Meanwhile, Mr John Redwood, the influential Eurosceptic former minister, showed he remains deeply mistrustful of the pro-European Mr Clarke, by urging fellow MPs to lobby for amendments to single currency regulations.

Clear whisky not the right spirit, say Scots

Scotch makers will go to court over a 'pure' version of the famous drink

Producers of Scotch whisky are taking the Isle of Man's Glen Kella distillery to the High Court in London. They argue that the island's spirit cannot be called whisky – or whiskey – because it fails to meet European Union definitions.

"Whisky must retain the colour, aroma and taste derived from its distillation and maturation," says the Scotch Whisky Association. A lawyer representing the SWA adds: "If we can't stop this one, I don't know what we can stop." The case is due to come to court in February. Whisky is whiskey produced in Scotland.

The Isle of Man is not alone in producing whiskies which are strange to the Scots. India, for example, distils large volumes of whiskey under brands such as Bagpiper. But, to the serious drinker of Scotch, only the colour of the subcontinent's spirit bears any resemblance to the "water of life" from Scotland.

But distillers of Scotch work closely through joint ventures with their Indian counterparts. One product is an "ad-mix" whiskey in which Scotch is added to Indian spirit to make Indian whiskey.

Whiskey from the Isle of Man, which lies between England and Ireland, starts as Scotch whisky. "We buy a good five-year old blend and an eight-year-old malt from a Glasgow broker," explained Mr Andrew Dixon, whose family owns Glen Kella.

The company then redistils the spirit in a process developed over the past 20 years. Mr Dixon says all the flavours of the Scotch are retained but the spirit is colourless because "a heavy tar residue" is left behind.

"It is pure whiskey with a sweet, smooth, long palate and a nice complex taste," said Mr Dixon, who hopes to sell 3,000 bottles this year. Half the buyers are in the Isle of Man; the rest largely in Germany and the UK.

The court case could become complicated because EU regulations define the process only up to the spirit's maturation in wooden casks. The SWA argues that whatever comes out of the cask is an essential part of the Scotch. It says redistilling is detrimental because it removes some of the 500 or so flavour elements from the spirit.

"Once it has matured, it doesn't need anything else doing to it," the SWA says.

But for decades, Scotch producers have put their spirit through further processes after the cask. First they dilute the spirit from cask strength of about 60 per cent alcohol by volume to 40 per cent with demineralised water. Caramel is sometimes added to darken the colour.

Lastly, before bottling, the spirit is cooled to about 0°C and filtered to remove fatty acids. These are taken out to prevent the "chill haze" that can occur when whisky gets very cold.

Scotch purists like their spirit cask strength and unfiltered. "I do love getting some of the stuff straight from the cask," says a senior distiller in Scotland. "The chill filter is a compromise. It keeps the Scotch clear but it takes out some of the mouth-feel, the wonderful rounded feeling of the whisky."

With the High Court in London likely to be filled with such passionate argument in February, the case could become a defining moment for the Scotch industry.

Roderick Oram

Island Photographic

Strange brew: Andrew Dixon says his whiskey (inset) is pure, sweet, smooth and a has a "nice complex taste"

Heavier trucks may soon be allowed

By Charles Batchelor, Transport Correspondent

The UK government yesterday raised the prospect of increasing the maximum weight of trucks allowed on Britain's roads from 38 to 40 tonnes next year, and to 44 tonnes by 1999.

It also proposed, as soon as the necessary regulation can be brought into effect, allowing six-axle, 44 tonne trucks to be used in connection with "piggyback" services, in which a road trailer without the driver's cab is lifted on to a flatbed rail wagon.

The proposals coincided with the launch in London of a flatbed wagon developed by Thrall Car, a large US rolling stock manufacturer. This EuroSpine wagon allows certain designs of road trailer to be carried on the rail network without the need for expensive modifications to tunnels and bridges.

The use of 44-tonne trucks is now restricted in Britain to container shipments to rail terminals. Its extension to piggyback shipments was welcomed by the rail industry. Allowing the general use of 44-tonners, however, will increase competition to rail and was criticised by environmental groups.

Transport 2000, a pro-rail lobby group, said a rise in the general weight limit would mean increased road damage, casualties and environmental problems.

The UK has the tightest controls on truck sizes in the European Union, where 44-tonners with six axles are common. The Netherlands allows lorries up to 50 and Finland up to 53 tonnes.

Mr John Watts, UK roads minister, yesterday launched a 2½-month consultation period into these proposals. A 44-tonne truck on six axles would cause no more wear on roads or bridges than the 38-tonne, five-axle lorries currently allowed because the total weight would be spread more widely, he said. The 44-tonner would cause less wear than the 40-tonne, five-axle trucks which will be allowed from January 1999, he added.

The heavier trucks would be no larger than those now on the roads but they would allow shippers and hauliers to fill the space in their vehicles more effectively. At present some large vehicles run partly empty because they have reached their weight limit.

The UK department of transport believes heavier trucks would allow hauliers to reduce fleet sizes. It puts the potential reduction at 6,500 of the 75,300 37-tonne and 38-tonne vehicles in use, but the cut might be only half that if traffic switched from rail to road.

The Freight Transport Association welcomed the proposals. The Council for the Protection of Rural England, however, said heavier vehicles should not be allowed until enforcement of the widely-ignored existing weight restrictions was tightened.

Spanish group joins rail freight bidding

By Charles Batchelor, Transport Correspondent

Stagecoach, the bus company which has expanded into the privatised passenger railway business, plans a move into freight operations.

The Scotland-based group is the third partner in a bid for Railfreight Distribution (RfD), which operates container trains through the Channel tunnel from England to France. RfD is the final part of the state rail freight business to be sold.

Stagecoach's partners in the bidding are Freightliner, the recently privatised operator of UK container services, and Transfesa, a Spanish freight company. The third partner had previously not been identified.

Bids for RfD were filed yesterday by the Stagecoach consortium and by English Welsh & Scottish Railway, the US-owned company which runs bulk freight trains and a growing range of non-bulk services.

But both bidders are understood to have had problems framing their bids because of the extent of RfD's losses. It has recently been losing £1m ($1.7m) a week before interest charges, a figure almost equal to its turnover of £60m a year. It employs 1,500 people and, before the recent Channel tunnel fire, ran about 160 freight trains through the tunnel each week.

BR wrote off the entire £500m value of RfD's assets and commitments in its last accounts, including £300m worth of trains and terminals and £200m to cover the minimum charge for use of the Channel tunnel over the next 10 years.

Neither bidder put in completely compliant initial bids.

A decision on the winner is expected within the next few weeks.

EWS said: "Regardless of whether we win RfD or not we will compete with a container service through the Channel tunnel."

Bank rule change cost 'too high'

By John Gapper, Banking Editor

The costs and upheaval that would be involved in changing the structure of financial regulation to unite the supervision of banking and securities firms are too high to be worthwhile, Mr Howard Davies, deputy governor of the Bank of England, said yesterday.

Mr Davies was responding to a recent study suggesting that the job of supervising banks should be passed from the Bank of England, the UK central bank, to a separate commission. He said that banks were still sufficiently distinct to warrant supervision by a separate body.

Mr Davies said recent proposals by Mr Michael Taylor, a former Bank of England official, had been "considered and thoughtful", but the "substantial upheaval and cost" would not be worthwhile.

But he indicated guarded support for the opposition Labour party's policy of abolishing self-regulating organisations such as the Securities and Futures Authority, and folding them into the Securities and Investments Board.

Mr Davies said that the board of SIB, of which he was a member, was neutral on the issue of organisation of regulation. But "it may well be that, in some areas, consolidation would make co-operation easier to achieve".

There has been growing support for unification of banking and securities regulation because securities firms have been bought by banks. Many financial institutions have complained of having to report to too many regulators. "Even speaking as a regulator myself, I would have to accept that you can have too much of a good thing," he said.

Derivatives rules, Page 28

UK NEWS DIGEST

N Ireland sees beatings rise

There has been a sharp rise in "punishment beatings" in Northern Ireland this year, the UK government disclosed yesterday. Sir John Wheeler, a minister in the Northern Ireland Office, said there had been 276 punishment beatings between January 1 and November 25 this year, 158 of them inflicted by republicans and 118 by anti-nationalist "loyalists". This represents a rise of 59 on the whole of last year when there were 217 beatings. There were only 254 beatings in the four years before that (1991 to 1994 inclusive). Sir John said the figures did not include punishment shootings. Punishment beatings increased markedly after paramilitary groups declared ceasefires in 1994. In one of the most recent incidents, a man of 21 was attacked at night in his Ballymena flat by five men, four of whom had baseball bats and the other a gun. The man was shot three times in one leg by the gunman and beaten by the other four, who also set fire to the man's furniture. *PA News*

■ MTM TRIAL

Directors convicted of misleading

Two directors of MTM, the former chemicals manufacturer, were yesterday convicted by a London jury of fraudulently boosting the company's profits and of deceiving institutions about its financial health. Mr Richard Lines, the former MTM chairman, and Mr Thomas Baxter, the company's former finance director, were both found guilty of conspiring to account falsely and of making misleading statements. They will be sentenced in about three weeks. In the late 1980s MTM became the second biggest producer of fine chemicals in the UK, with subsidiaries in the USA and Europe. But by 1990 its acquisition strategy and the recession, left the company stretched. Led by Mr Lines, senior management embarked on a scheme to deceive the markets about the company's financial health. When purchasing Orsynex, a US chemical company, in September 1990, false invoices were created which suggested that MTM had made a profit of $3.6m from the purchase. MTM then held a rights issue to raise money for the purchase of Hardwicke, a US agrochemical company. Mr Lines assured institutions that the issue would not dilute expected profits of £23m ($38.7m). *John Mason*

■ BTR

Investigators probe share trading

Investigators at the UK Department of Trade and Industry have begun a secret inquiry into trading in the shares of the conglomerate BTR and its former Australian associate BTR Nylex. The investigation appears to centre on trading in the shares of both companies ahead of the announcement last summer that BTR would buy in the 37 per cent of Nylex it did not already own, at a cost of A$4.48bn ($3.64bn). The purchase was made partly as a prelude to the sale of Nylex's effective 51 per cent interest in three Taiwan plastics businesses for US$300m. BTR is understood to be co-operating fully with the inquiry. There is no suggestion that any BTR employee is under suspicion. *Ross Tieman*

■ ECONOMY

Boost for factory order books

Factory order books in the UK are improving at their fastest rate for two years, while rapid growth in the amount of cash in circulation points to buoyant spending in the run-up to Christmas. The pound's recent strength has dented factory orders from other countries, but greater demand from domestic customers is more than compensating, according to the latest monthly survey by the Chartered Institute of Purchasing and Supply.

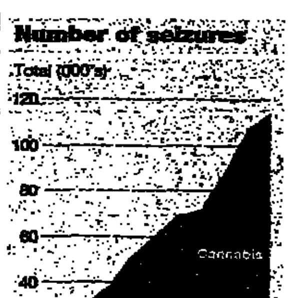
The pound has been rising largely because the economy's strength has led exchange dealers to expect further rises in interest rates. Sterling briefly topped DM2.60 yesterday and closed half a point up against a basket of currencies at 94.5 per cent of its 1990 value.

Makers of consumer goods are seeing the biggest rise in orders. Orders for investment goods and components are more sluggish, which the institute attributes to "uncertainty about future business conditions". Factory output continued to increase, but at a slightly slower rate than in October, the survey showed. The value of notes and coins in circulation rose by 0.8 per cent in November, after adjusting for normal seasonal patterns. *Robert Chote*

Martin Wolf, Page 16

■ ILLEGAL DRUGS

Seizures up 6% to record



The number of drug seizures last year rose 6 per cent to a record 115,000, but the rate of increase was the lowest since 1992, a new study has found. According to the Home Office, 80 per cent of the seizures involved cannabis and 13 per cent amphetamines. Although amphetamine seizures rose 19 per cent, cannabis seizures rose by only 3 per cent. Seizures involving class A drugs rose 25 per cent to 17,300, primarily due to increases in seizures of heroin and MDMA, rising to 6 and 5 per cent of the total respectively. The quantity of heroin seized rose 87 per cent. The number of drug offenders rose 9 per cent to 94,000, of which nearly 90 per cent were possession cases, most often cannabis. *Mark Suzman*

■ CHANNEL ISLANDS

French fishing boats defy ban

Ten French fishing boats entered a restricted area of Channel Island waters yesterday. They were defying a ban imposed after the expiry of an agreement between France and the authorities in Guernsey, second biggest of the islands between England and France. The fishermen were accompanied by a French naval helicopter and a coastguard vessel, apparently ordered to intervene should any attempt be made to arrest the men. *Philip Jeune*

Bus builder reveals Sri Lanka venture

By Haig Simonian, Motor Industry Correspondent

Optare, a northern England bus builder, yesterday announced a significant expansion of its international activities with a joint venture to build up to 500 vehicles a year in Sri Lanka.

The company, which in the past year has reached similar agreements to supply bus-building expertise to Malta and Malaysia, expects the latest deal to generate up to £15m ($25.2m) a year in local sales.

Optare is joining forces with Ceylinco, an insurance company which is one of Sri Lanka's biggest employers, and Itochu, the big Japanese trading house. The joint project, Ceymo Automobile, will use Optare's bus technology to develop a new type of vehicle for demanding local conditions. The new ColomboRider vehicle will use a Chinese-built chassis from Chaoyong Diesel.

The bus will combine features of existing Optare vehicles including low floors for easy access. The first buses are being completed in Leeds, with production in Sri Lanka to start early next year.

The latest deal follows a technology transfer agreement in 1995 to manufacture buses in Malaysia based on Optare's MetroRider model and a big order from Malta last September for a special version of the low-floor Excel city bus.

"We can now claim to be firmly established as a player in the global market for buses," said Mr Russell Richardson, the managing director. "Our ability to recognise opportunities to offer our proven and successful technology in developing markets means we can be financially successful in situations where our larger rivals cannot."

The deal confirms Optare's recovery since it was acquired in 1993 in a management buy-out from receivers after the collapse of United Bus, its Netherlands-based owner.

Optare expects sales to reach £37m ($62.2m) this year from £33.9m in 1995, while bus output should rise to 350 vehicles from 274.

Most of the shares are held by six managers including Mr Richardson. About half of the 360 workers own a further 5 per cent of the capital, with the remaining shares held by institutional investors. Mr Richardson said Optare had no plans for a flotation or a trade sale.

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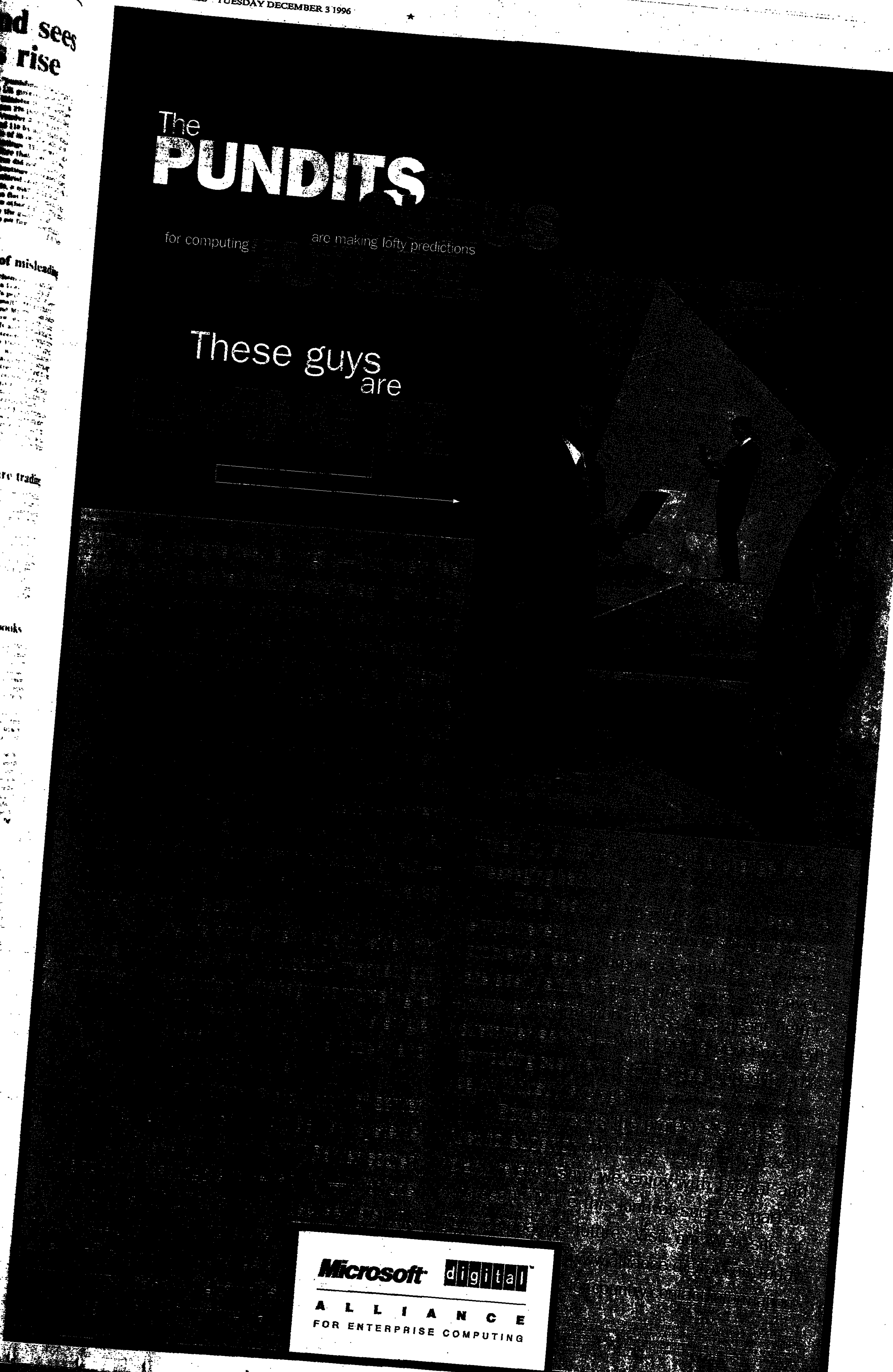
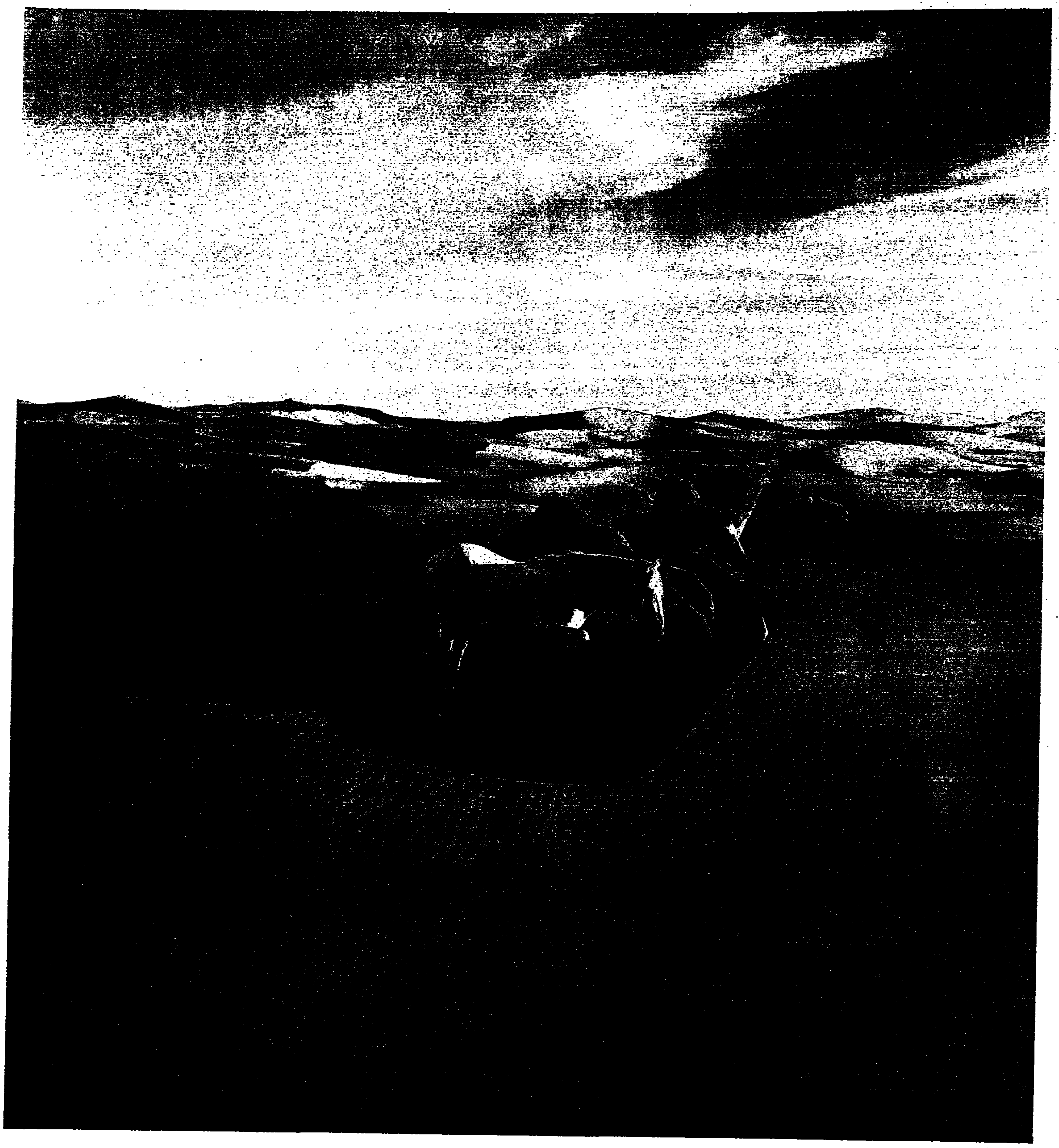
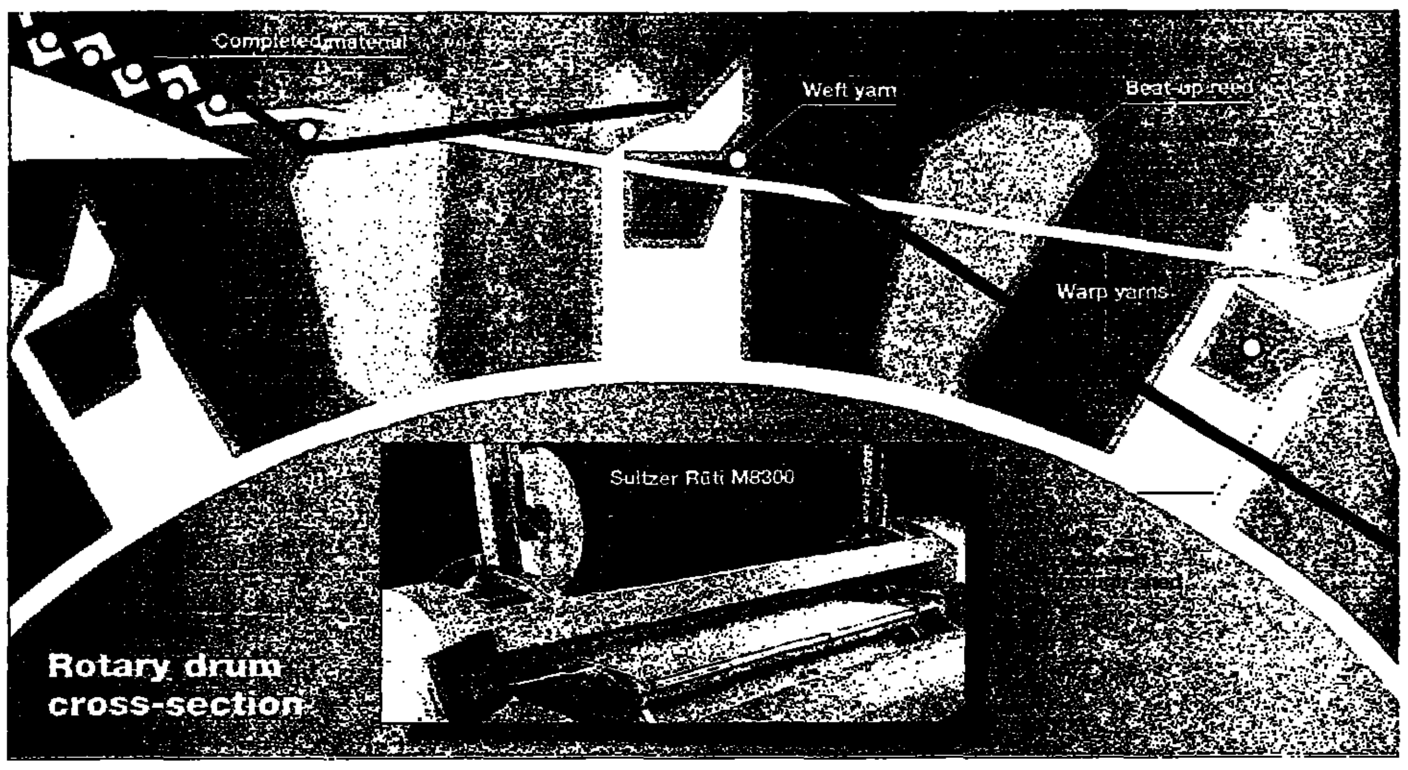




هكذا من الأصل

A 'quantum leap' in loom design development promises substantial production cost savings, writes **Andrew Baxter**

Material gain in warp speed



Amid the ceaseless din of a large weaving mill somewhere in Europe, a new type of loom is churning out material for sportswear. "It's working 24 hours a day and we've sold 80,000m of material from it," says the mill owner. "The customers don't know the material has come from the new machine – they would not be able to tell the difference."

The machine – the first of its type to be tested at a customer site – has had its share of teething problems in the past year but has generally been running well, says the mill owner, who wants to remain unidentified. "The key advantage is that it is so much faster than our other machines. It's producing as much as three of them," he says.

The new loom goes by the unremarkable name of the M8300, but is seen by its manufacturer, Switzerland's Sulzer Rüti, and by independent textile technology experts as an important advance for a 5,000-year-old industry.

Weaving is an arcane world of wefts and warp, where words such as "shed" and "pick" have a special meaning and "beating up" is not an arrestable offence.

Over the past few decades companies such as Sulzer Rüti, the world's biggest weaving machinery producer, have tried to find better, faster ways to pass a weft yarn through the "shed" formed by lifting alternate warp yarns. A pick is one pass-through by the weft, which then has to be beaten up against the existing material.

Several developments this century have brought big increases in weaving speeds, followed by incremental improvements as the technologies were fine-tuned. In the 1950s the arrival of projectile weaving machines, invented by Sulzer Rüti, removed the need to throw a shuttle to carry the weft backwards and forwards across the warp yarns. In the 1970s came further methods to get the weft across, with the fastest results coming from airjet machines.

These use compressed air to blow the weft across and have taken the weft insertion rate from 200m per minute in the days of shuttle looms to about 2,000m. But the M8300, even before it has gone into production, is achieving speeds of 5,000m per minute, equivalent to 70m of material an hour at a standard width of 1.9m. "Over the past 15 years we have had a steady increase in weaving speeds," says Gerhard Egbers, director of the Institute of Textile Research near Stuttgart, who has been closely involved in the project's development. "But this technology jumps – it's a quantum leap."

The breakthrough has been achieved through a fundamental design rethink. The warp yarns are passed over a continuously rotating drum, 210mm in diameter, on which combs lift alternate yarns to form four tiny sheds simultaneously. Airjets blow the wefts through the sheds, which are then beaten up by bars between each row of combs and cut off at the ends.

By finding a way to insert four wefts at once, Sulzer Rüti has achieved what has long been a dream in the weaving technology world – a "multiphase" machine.

Theoretically, this could be achieved in two ways. Loom-makers have tried creating a number of sheds in the weft, the so-called wave-shed principle, but the rapid acceleration and braking of the weft caused the yarn to break, and these "mispicks" were very difficult to mend. Instead, the Sulzer approach creates sheds in the warp direction – the sequential-shed principle. This has been tried before but never achieved weft insertion speeds higher than those of conventional airjet machines.

The M8300 achieves its speed by making about 2,800 picks a minute, but Alois Steiner, Sulzer Rüti's systems development chief and "father" of the machine, predicts that weft speeds of 10,000m a minute will be possible in five to 10 years.

Even at current speeds, however, the machine would be a big step forward for textile companies making standard fabrics, which constitute about 65 per cent of the world fabrics market.

There are other advantages too, says Steiner. In a conventional loom the warp yarns move up and down about 70mm but on the M8300 only half of the yarns are lifted by the tiny warp positioners, and by only about 12mm to 13mm, while the other yarns rest on the drum.

This sharply reduces strain on the warp threads, which could have important implications for the spinning industry. If the yarn does not have to be so strong, spinners could reduce the twist in the yarn, and increase production, says Urs Meyer, head of the Zurich-based Institute for Textile Machinery.

With fewer parts moving up and down or accelerating and braking, the M8300 does not have to be bolted to the floor and uses less energy. Sulzer Rüti claims its power consumption per square metre of fabric is the lowest ever, and half that of modern airjet looms. For good measure, to the human ear the machine is only half as noisy as its present-day counterparts.

For textile companies, savings from the machine could be considerable. In the US 40 M8300s could do the same work as 119 conventional airjets but would require 40 per cent less space, 39 per cent less energy and 16 per cent fewer people. Including administration staff, such a plant's workforce would fall from 108 to 89, according to the US Institute of Textile Technology.

Developing the M8300 has been a prodigious effort for Steiner and his team, involving 50 man years of work in the past 15 years at Sulzer Rüti and sister companies in the Sulzer group. Work has been accelerated since 1992, when Helmut Pirchl became president of Sulzer Rüti, but even so development could not be hurried and hundreds of details had to be checked. "Our customers are very conservative," says Pirchl. "You have to plan a big market introduction like this carefully, and get experience on the weaving floor. Customers want to see many references before they even consider investing."

That the machine could be developed at all is a measure of the progress made in a number of technologies since the first wood and rope model was made at the German textile institute in 1974. Airjet technology was in its infancy then but, says Egbers, has advanced to the stage where wefts can be blown through very small openings. Manufacture of high-precision components has also improved, particularly over the past five or six years, says Egbers. Any mistake made while drilling the tiny air nozzles into some of the warp positioners, for example, could result in the weft being blown off course.

Developments in machine controls, such as closed loop digital servo drives, have also helped, says Meyer. "This loom is the first where we have everything designed from the start for the new drive technology. That is the major breakthrough."

Sulzer Rüti hopes to deliver the first production models in 1998. A handful of other textile companies in Europe, the US and Latin America will test the M8300 next year, and another six machines will be sent to the first site in the next few weeks. "I need to have several machines to work out how much we will save in energy and labour costs," says the mill owner. "We are optimistic."

Threads of hope

If global demand for textiles remained constant, weaving machinery makers would be *sowing the seeds of their* own destruction every time they came up with a faster loom, as fewer machines would be needed to produce the same amount of cloth.

Fortunately, this has never happened because of the world's increasing population and rising living standards, so more clothing and more complex fashion weaves are purchased. Also, while textile companies are naturally cautious about new technology, once a few adopt it successfully others tend to follow to remain competitive.

This is why loom-makers are open to new ideas, even if developing products can take years. "The market has shown that a major breakthrough leads to a complete change in market shares in five years," says Meyer.

The new machine could not come a moment too soon for Sulzer Rüti. *Although long-term* demand for textiles is rising by about 3 per cent a year, the textile machinery market is highly cyclical and worldwide demand has halved since 1990.

The slump has affected Sulzer Rüti particularly badly. The strong Swiss franc and competition from low-cost Asian producers has led to a sharp fall in demand for its machines. Mounting losses at the company have taken the shine off a recent profits recovery at the Sulzer group and increased the urgency of measures to get the business back into the black.

In October, with no sign of an end to the weaving machinery recession, Sulzer Rüti announced a big restructuring. By the end of next year its 3,200-strong worldwide workforce will be reduced by 950, and production capacity will be less than half 1990 levels.

At Rüti itself, a small town in eastern Switzerland, 600 jobs are to go as production is shifted almost entirely to the company's plant at Zuchwil, west of Zurich. The cuts will be a painful blow for the town of Rüti, which has been associated with textile machinery since 1842, when Caspar Honneger began building the world-famous Honneger cotton-weaving looms there.

The new machine could be a lifeline. "We are in a similar position to where Sulzer was in the 1950s with the first projectile machines," says Pirchl. "We are aware that the first few years will not be easy ... but we hope to get a good share of the market."

The new machine will not replace looms designed to produce complex multicoloured weaves, and is likely to be too sophisticated for users of the 3.5m shuttle looms still at work mainly in developing nations.

But it could be very attractive to textile companies using airjet machines for high-speed weaving, says René König, Sulzer Rüti's head of advertising. "The first potential market will be customers in the Far East and US exporting to high-quality markets," he says.

Sulzer Rüti's new machine is protected by about 60 patents, but if it becomes a significant factor in the market, competitors will produce something similar sooner or later, says Pirchl. "Our best protection is to stay ahead technologically," he adds. One area of focus will be to broaden the range of yarns which the machine can handle from staple fibres such as cotton and wool to include thinner filament yarns such as polyesters and nylons.

AB

ARTS

Celebration of the stark cityscape

William Packer reconsiders the work of David Hepher

David Hepher is 61 and a professor in the painting school at the Slade. With a career that now spans more than 40 years, a retrospective at an institution such as the Museum of London is well-earned and, in the light of his subject-matter, entirely appropriate. The pity is only that the museum's constricted space allows only a narrow choice, representative though it is; and it will be seen by a more casual public than its quality and formal interest as painting would command at somewhere like the Tate or Whitechapel.

That said, the irony is that Hepher has already enjoyed his retrospective at the Whitechapel – 22 years ago. It did seem a little premature, and looking back at what I wrote I was indeed rather hard on it: I was distrustful of apparent shifts and changes in the work that seemed arbitrary and at times extreme, a search after style rather than a response to the needs and development of the work.

In particular, I took against the then latest work: large, all but life-size paintings of the front doors, bay windows and garden fences of a row of houses in Dulwich, presented with an assiduous matter-of-factness and painted dead-pan, brick by brick. I saw them then as the final step in a progress away from the early free Bombergian expressionism, the raw mixed-media experiments of the studio interiors that followed, towards a quasi-photographic realism.

To see them now, at the centre of this show, is, I must admit, to see them in quite a different way. They no longer read as that fixed and final stage in a development, but rather as a link and a continuation. See it clearly and see it whole: the deferral-principle for retrospectives was ever sound.

Hepher's subject has always been the world about him, the streets and tower-blocks, the cluttered studio. The earliest paintings are views across Sheffield roofs and back-to-backs, made when he was still a student. The streets and houses of Camberwell in the early 1960s, painted in open homage to David Bomberg with a rich impasto and free, direct expression, loom as ominously as any later tower.

So, from a Sheffield terrace to one in Dulwich, and on to a Walworth block of flats may be no great step after all. A recent tower-block painting, "Georgian Heights", contains an upended Georgian terrace that reads at first as but another tower-block. Again, the shift from red-brick-by-brick Dulwich to the Walworth council estates which Hepher turned his attention to after the Whitechapel show, was not so great. Each modular flat and balcony on those blank cliff-faces was seen as no more than a brick of sorts. The same frontal presentation was retained, and the same attention to variation and incident within an encompassing, insistent regularity.

Over the last 10 years or so, however, Hepher's method has loosened up, becoming more openly experimental in its practice and open-minded as to effect. The Piranesian fantasies of the late 1980s, setting high towers among the soaring arches and railways vaults of Victorian London, come as no surprise. Again it is the work over a lifetime being all of a piece, for what we see is but a renewed celebration of what was always inherent.

Without sacrificing anything of detail, here again are the rich, dense surfaces of the early work, and that free expressionist confidence of application. And those cluttered studio interiors of the 1960s take on a renewed relevance. Table-tops that might be landscapes, cities, wastelands, are given a physical actuality not just of paint, but of the wood and metal elements collaged to them.

In the most recent work, the paint conforms to the actual texture of the coffered concrete walls while yet sustaining a conventional pictorial space. The canvas supports the image of tower and wall, yet is ambiguously the wall itself, smothered in graffiti, that is surprisingly seductive when seen for itself on the picture plane, gleefully transgressing both wall and image. The latest triptychs, at Flowers East, even bring in the maps that stand at the entrance to every such estate, smothered in demotic decoration. We move from the actual to the illusory and back again, just as in those studio interiors, just as in all painting. All comes together in the end.

David Hepher – *Streets in the Sky*: Museum of London, London Wall EC2, until December 31. David Hepher – *Two Triptychs*: Flowers East, 199 Richmond Road E8, until January 19.

Openly becoming more experimental: 'The Hawks Tower, Elephant and Castle', 1988, by David Hepher

London concerts/**Stephen Pettitt**

Musicians of distinction

Where Michael Tilson Thomas polished the London Symphony Orchestra into a glittering, virtuoso instrument, his successor Sir Colin Davis has evidently been busy applying one or two North European touches. Everything has become mellower, riper. Last week Radu Lupu gave Mozart's dark C minor piano Concerto, K 491 with the LSO under Davis last week as the curtain raiser – some curtain-raiser! – to Sibelius's Kullervo Symphony. It was a beautiful performance, eloquently shaped and Lupu's touch, crisp, precise, yet delicate, weighty but never stodgy, was perfection itself.

But it was on Sibelius's early epic symphony, composed in 1892, seven years before the first numbered symphony, that most minds were primarily focused. It is a strange work for a composer whose later ambition seemed primarily to distil; but the Kullervo Symphony, based upon the incestuous tale which is the great national epic poem Kalevala, positively and luxuriantly sprawls, offering a broad canvas upon which Sibelius struggles to find himself through an inclusive rather than exclusive process (among those included are Tchaikovsky and Strauss). But what else should we expect? With Kullervo Sibelius achieved at the very least a strikingly Finnish idiom, and a remarkable self-confidence into the bargain.

So no excuses need to be made for the ambitions nor for the derivative qualities of Kullervo. Nor, indeed, for the variety found within it, the huge opening movement an essay portraying the youth in heroic, Straussian, terms, the second a darker piece. The core of the work is, however, the third movement, where soprano and baritone (the excellent Hillevi Martinpelto and the young but more than promising Karl-Magnus Fredriksson) enact the scene of Kullervo's seduction of his sister before the formal narration of the male chorus, here the voices of the London Symphony Chorus, impeccably trained by Stephen Westrop. A vivid battle Scherzo, and, again with male chorus, a noble and touching death-movement, and the piece is over. Davis seemed to let it rather than to make it happen. And that, given Sibelius's way of apparently allowing his music to unfold itself, was the only way to do it.

The Barbican's other major event of the week was the series of three concerts given by the Academy of St Martin in the Fields under Sir Neville Marriner in which Alfred Brendel played all five of Beethoven's piano concertos. He is a marvellous pianist and we can only regret that he has already given, at the age of 65, his last complete cycle of the Beethoven sonatas. But I sometimes wondered whether this challenge was simply too much even for this super-mortal. Too often fingerwork was less than clean, the delicate close-to-the-keyboard style compromised by the occasional fluffed run or wrong note. But what remained was Brendel's uncompromising manner, inviting the listener into his world, doing everything to encourage active listening, rather than simply playing to the gallery. In taking that approach he is a musician of similar outlook to Davis. It is an outlook, shunning superficial gratification in favour of the possibility of saying something deeper and longer lasting, that can only be admired.

Opera/**Andrew Clark**

Tosca with a cutting edge

In this age of spurious authenticity, let us give thanks for a truly authentic *Tosca*. The Royal Opera's historic production at Covent Garden may not be as old as the work itself, but it has an immutable style which, with the right cast and conductor, elevates Puccini's handiwork instead of cheapening it. That is why this latest revival is worth catching, even for those who believe *Tosca* is an opera to be seen once and never again.

For the second successive season, Galina Gorchakova asserts her credentials as an authentic Italian prima donna – something even her Russian compatriot Vishnevskaya, one of her most illustrious predecessors in this production, never quite managed to do. Gorchakova may lack Vishnevskaya's temperament – there is a coolness about Tosca's trials of resolve in Act 2 which results in a low-key "Vissi d'arte" – and her armoury of expressive nuance is still quite limited: but she sings with lustre and Italianate style, the voice filling out with unassailable grandeur at the top and bottom.

Her other distinguishing traits are stage presence, dignity and an unexpected touch of the comedienne in Act 1, where her parting exchanges with Cavaradossi plumb a lighter-than-usual vein of sexual jealousy. It is this classy self-awareness that proves such an appropriate foil to James Morris's handsome Scarpia.

We tend to think of Morris as a Wagnerian; this performance, his first Italian role in London, underlines how versatile he is. What his singing misses in colour, it makes up in cutting edge and intelligence, above all in the way he acts with the voice. Morris's body language – the lifting of an eyebrow, the flick of a whip – is no less assured, the suave exterior masking a ruthless, lustful core. There is not a hint of caricature in Morris's police chief: this is a three-dimensional portrait.

Tastefulness, then, is the hallmark of this revival, and Sir Edward Downes's conducting is a key ingredient. Downes has been associated with this production since the 1960s, but there is nothing routine in his approach. Spacious tempi belie a knack for raising the temperature at the right moments, and the orchestra alights on Puccini's chiaroscuro with seasoned enthusiasm.

Alastair Muir

Authentic: Galina Gorchakova and James Morris in Zeffirelli's ageless production

Not everything works on the same exalted level. Keith Olsen's lacklustre Cavaradossi makes the evening sag inconveniently, and the Angelotti and Sacristan are sketchy. But Renzo Mongiardino's original settings are still an eye-catcher, and there is no reason why the Zeffirelli production, created for Callas, should not continue to serve *Tosca* well into the next century.

Revival sponsored by Mrs Jayne Wrightsman.

Concert/**David Murray**

Fatal attraction

The Philharmonia and their conductor-elect Christoph von Dohnányi have been playing for two opera productions at the Paris Châtelet. Naturally enough, they took the opportunity to bring them to the Royal Festival Hall (another of their residences) as concert-performances, with most of the original casts: Schoenberg's *Moses und Aron* a month ago, in a soberly impressive reading, and on Tuesday Stravinsky's opera-oratorio *Oedipus Rex*.

Re-rehearsing *Oedipus* should have been a matter of dusting-up; but at short notice the incestuous central pair had to be replaced. First their Oedipus, Philip Langridge, fell ill, and then at the last moment the Jocasta, Michelle DeYoung, lost her voice. As luck had it, Anthony Rolfe Johnson was available – and excellent, though cramped by Dohnányi's unyielding tempi.

As for Jocasta, Stefania Kaluza was hastily flown in to deliver her grand aria with grand, sombre dignity. Few contraltos sound fluently at home in this exacerbated role, but she did: eloquent, natural and unforced. Willard White's Tiresias had great presence, if not quite his lowest notes, and Franz-Josef Kapellmann sang the bureaucrat Creon as cannily and tellingly as any I've heard. The Czech Radio Choir supplied the all-male chorus, whose lusty, full-throated power and diction probably outclassed any British competitors.

The performance left a solid stamp, with the most famous, most copied bass-line (or bass-throb) of the century thrust into relief as the pitiless motor of the action. If there was little interplay between the singers, Dohnányi preserved a hard, ongoing pulse and a matching sense of fatality.

Perhaps Webern's subtle orchestration of the Ricercare from Bach's *Musical Offering* used up a lot of rehearsal-time. It sounded like that: Webern's trick of swapping instruments in mid-theme has rarely been so smoothly modulated and discreet. Dohnányi did nonetheless require some *portamenti* from the strings, in the style of Webern's own period: Webern might have been puzzled.

In Stravinsky's violin concerto, Viktoria Mullova was a strange soloist. She played all the notes in the right order, very efficiently, but her mind seemed to be elsewhere. She did nothing to lend it character, and in the quick movements she and Dohnányi were out-of-synch. The concerto deserves better.

Strings attached to the Mahon bequest

After years of keeping the nation's galleries guessing, Sir Denis Mahon has at last announced where he is bequesting his collection of 61 17th-century Italian baroque paintings, the finest collection of Old Masters amassed in the UK in the past 60 years. It includes works by Guercino, Guido Reni, Domenichino, the Carraccis and more.

The main beneficiary is the National Gallery, which will receive 16 works, with another 10, that it can loan at its discretion, to the National Museum of Wales. The Ashmolean in Oxford gets 12, and the National Gallery of Scotland, eight.

But there are strings. Sir Denis has long used the destination of his collection to influence government policy towards the heritage. He is bequeathing ownership to the National Art Collections Fund, which will take them back if the chosen galleries sell off any paintings and drawings from their permanent collection.

Sir Denis has also hung a sword of Damocles over the government. He is opposed to admission charges for museums, and if any of the selected institutions introduce charges he may well change the conditions of his bequest. At the moment they are all opposed to charges, but the government is putting financial pressure on them: museums and galleries that do not charge were treated more harshly in the 1997-98 funding round than museums that do.

From May 26 for three months the National Gallery in London will be displaying the Sir Denis Mahon collection, including three works he had to sell in the 1970s. The collection has been estimated to be worth at least £25m: it cost Sir Denis £500,000 at a time when the Italian baroque was out of favour. The exhibition is sponsored by Guinness Mahon: Sir Denis's great uncle helped to found the bank in 1836.

Antony Thorncroft

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT

Concertgebouw Tel: 31-20-6718345

● Robert Holl, Ian Bostridge, Naum Grubert, Julius Drake, Carolyn Watkinson and Jacob Slagter: the bass, tenor, pianists, mezzo-soprano and horn-player perform works by Shostakovich and Britten; 8.15pm; Dec 4

EXHIBITION

Rijksmuseum Tel: 31-20-6732121

● Aanwinsten - Tekeningen, prenten en foto's (1993-1996): exhibition featuring drawings, prints and photographs that were added to the museum's collection over the past four years. Included in the exhibition are drawings by Lombart, Berendsz, Berchem, Hondius, Van Rijck, Romeyn, Van der Tempel, De Wit, and others, prints by artists such as Hirschvogel, Herri met de Bles, Van Heemskerck, Maulbertsch, Friedrich and Grimm, and a selection of 19th and 20th century French and Dutch photographs; to Feb 2

■ DUBLIN

EXHIBITION

National Gallery of Ireland Tel: 353-1-6615133

● Treasures of the Royal Horticultural Society: this travelling exhibition is designed to bring the society's collection of botanical paintings and drawings to a wider public. It consists of some 70 images and three bound volumes ranging from 17th century Dutch flower studies to plant portraits by contemporary botanical artists. Included are botanical illustrations by artists such as Michiel van Huysum, Ferdinand Bauer, Augusta Innes Withers, John Lindley and Lilian Snelling; to Dec 15

■ EDINBURGH

EXHIBITION

Scottish National Gallery of Modern Art Tel: 44-131-5568921

● Anne Redpath: exhibition of work by Anne Redpath, one of the most successful and best-loved Scottish artists of the 20th century. The exhibition features around 70 works from her career. The works on display come from private and public collections throughout the UK. Highlights include "The Indian Rug" from the gallery's own collection, a group of watercolours painted in the early part of Redpath's career when living in France, and a large tapestry designed by her for the Scottish Widows company in 1962; to Jan 19

■ FRANKFURT

EXHIBITION

Museum für Moderne Kunst Tel: 49-69-21230447

● Szenenwechsel X: exhibition featuring works by Albert Oehlen, Robert Grober, Jochen Flinzer, Heiner Blum, Miriam Cahn, Nobuyoshi Araki, Larry Clark, Jock Sturges, Rosemarie Trockel, Anke Doberauer, Ed Ruscha, Bernd and Hilla Becher, Thomas Ruff, Max Mohr, Markus Raetz, and Stephan Balkenhol; to Jan 5

■ LONDON

CONCERT

Barbican Hall Tel: 44-171-6384141

● Messiah: by Handel. Conducted by Paul McCreesh, performed by the Gabrieli Consort and Players. Soloists include sopranos Dorothea Röschmann and Deborah York and contralto Ruby Philogene; 7pm; Dec 5

Royal Festival Hall Tel: 44-171-9604242

● Tabea Zimmermann and David Geringas: the violinist and cellist perform works by Ligeti; 6pm; Dec 5

Westminster Cathedral Tel: 44-171-7989055

● War Requiem: by Britten. Conducted by Steuart Bedford, performed by the Royal College of Music Chorus and Symphony Orchestra and the Choristers of Westminster Cathedral; 8pm; Dec 4

EXHIBITION

The Hayward Gallery Tel: 44-171-9604242

● Howard Hodgkin - Paintings: exhibition of oil paintings produced between 1975 and 1995 by the British painter Howard Hodgkin. Hodgkin works very slowly, often taking years before he considers a painting to be finished. The layers of overpainting leave traces of the earlier stages of the work; from Dec 5 to Feb 23

THEATRE

The Pit Tel: 44-171-6388891

● The Learned Ladies: by Molière. Directed by Steven Pimlott, performed by the Royal Shakespeare Company. The cast includes Roger Allam, Caroline Blakiston and Niamh Cusack; 7.15pm; Dec 3 (7pm), 4, 5 (also 2pm)

■ MADRID

EXHIBITION

Museo Nacional del Prado Tel: 34-1-3302900

● Luis Paret y Alcazar: this exhibition of 10 paintings and 21 drawings by Luis Paret y Alcazar celebrates the recent addition of a work by this Spanish painter to the museum's collection as well as the 250th anniversary of the artist's birth; from Dec 5

■ NEW YORK

AUCTION

Sotheby's Tel: 1-212-606-7000

● American Paintings, Sculpture and Drawings: this sale features property from the Shelburne Museum and the Collection formed by the British Rail Pension Fund as well as property from other owners. Highlights of the sale include John Singer Sargent's painting "Cashmere" (1908) and a white marble bust of Benjamin Franklin which was executed in 1779 by the French sculptor Jean-Antoine Houdon; 10.15am & 2pm; Dec 5

EXHIBITION

The Metropolitan Museum of Art Tel: 1-212-879-5500

● Some Women: an exhibition of portrait busts of eight women, in bronze and marble, by Rodin, Lehmbruck, Brancusi, Giacometti, and others; from Dec 6 to Apr 6

OPERA

Metropolitan Opera House Tel: 1-212-362-6000

● Cosi fan Tutte: by Mozart. Conducted by James Levine, performed by the Metropolitan Opera. Soloists include Nielsen, Bunnell, McLaughlin and R. Croft; 8pm; Dec 6

■ PARIS

DANCE

Théâtre National de l'Opéra – Opéra Garnier Tel: 33-1 42 66 50 22

● Ballet de l'Opéra National de Paris: perform George Balanchine's Apollon, Agon, Capriccio and Violin Concerto to music by Stravinsky; 7.30pm; Dec 7

EXHIBITION

Musée du Petit Palais Tel: 33-1 42 65 12 73

● Cité Interdite: this exhibition focuses with more than 150 objects on the different aspects of the imperial family life during the Qing era (1644-1911). On view are photographs, garments, furniture, and jewellery; to Feb 23

■ VENICE

EXHIBITION

Palazzo Grassi Tel: 39-41-5231680

● The Western Greeks: this exhibition aims to illustrate, through archaeological documents and antique works of art, the civilisation which developed in the Greek colonies in the west – from Italy to Sicily to Cyrenaica, from Provence to the Iberian Peninsula – and its contribution to the formation of European culture; to Dec 8

■ WASHINGTON

MUSICAL

National Theatre Tel: 1-202-628-6161

● Whistle Down the Wind: by Lloyd Webber and Steinman (previews). Directed by Harold Prince. The cast includes Irene Molloy, Davis Gaines, Candy Buckley, Lacey Hornkohl, Abbi Hutcherson and Cameron Bowen; Tue - Sat 8pm, Sun 7pm, Sat, Sun also 2pm; from Dec 6 to Dec 11 (Not Mon)

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Financial Times Business Tonight

Martin Wolf

Dear Ken, be decisive

If the chancellor wants to avoid the fate of his predecessors, he should raise interest rates now to avoid a tidal wave of bad news in the future

Dear Mr Clarke,

You are beginning to worry me. Do you realise how much you sound like other chancellors who once revelled in the early stages of a consumer-led expansion? You will have to act decisively on interest rates, if you are not to end up as reviled as they now are.

First, you need to be convinced that higher interest rates are what the UK needs. That will be difficult for you to accept just after you declared in your Budget speech that not only is "the British economy today prosperous and successful" but "any risk to this recovery from inflationary pressures re-emerging remains a good way off".

Fortunately, you also said: "Eddie will keep me steady and I will continue to be canny." A canny chancellor would bear in mind that all the pressure upon him is to loosen policy at the earliest opportunity and tighten it at the latest; that the costs of reducing unacceptably high inflation exceed those of reversing a temporary slowdown; and, most important, that by the time everyone is convinced tighter policy is necessary, it will be much too late.

There is no small danger of explosive growth in consumer demand, fuelling another inflationary economic expansion. To understand the nature of the danger – and why the Budget has not done enough to forestall it – you need to ponder what drives inflation.

In your speech, you listed a number of reasons why you were confident about inflation: "Apart from oil prices, which have risen sharply, commodity prices are steady and are not putting upward pressure on inflation. Earnings growth remains sensible and modest. Producer price inflation – a good indicator of what is in the pipeline for retail price inflation – is at its lowest level since the 1960s. Producer input prices are actually lower than they were a year ago."

All this is absolutely right. You could also add sterling to the list. The Bank of England's trade-weighted effective exchange rate has appreciated by nearly 14 per cent since the beginning of the year. But all these indicators relate to costs in the short term. While you bask in months of good news on inflation, excessive growth in demand could bring a tidal wave of bad tidings thereafter.

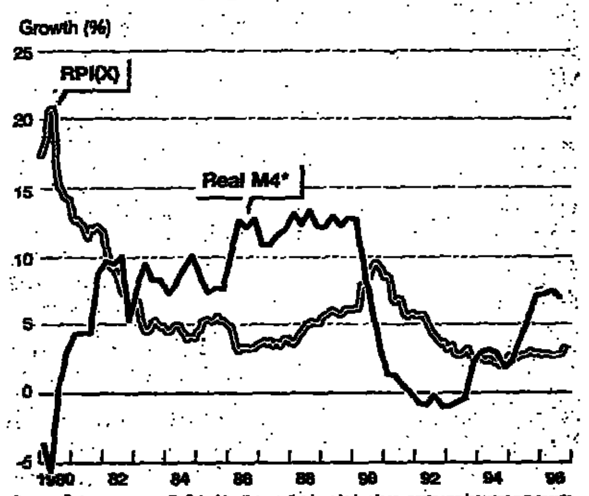
Money matters for demand. Until it was far too late, it was largely those who watched broad money (M4) who foresaw the inflationary surge of the late 1980s. The rate of growth of the money supply has risen once again. It is growing faster than seems consistent with inflation at the government's target rate of 2½ per cent a year or less. Again it is monetarists, such as Mr Tim Congdon of Lombard Street Research, who are sounding the alarm.

I assume that you want to hit this target. After all, it is your own. If you do, remember what happened at the end of the last headlong expansion. The Red Book published in March 1988 forecast the real growth of consumption that year at only 4 per cent, but it turned out to be 7.5 per cent. It forecast the growth of GDP at 3 per cent; but it turned out to be 5 per cent. The Treasury, in company with almost every respectable forecaster, was not just wrong in detail. It simply did not understand what was going on.

Ancient history? Far from it. Whether or not one accepts the monetarist policy of a strict rule for monetary growth – and I, for one, do not – there can be no serious question that persistently excessive growth of broad money and credit has consequences for aggregate demand. First, it will raise prices of other assets; then it will raise spending; finally, it will raise inflation. It happened before. It will happen again.

The first part of this story is now well advanced. Monetary growth is high in relation to inflation – and has been so for about three years. House prices are rising once again, most recently at about 7 per cent a year. The stockmarket is strong and business confidence is buoyant.

How monetary growth precedes inflation



Source: Datastream * Deflated by the retail prices index less mortgage interest payments

As for consumers, their confidence is apparently at its strongest since August 1988. Retail sales volume grew 4 per cent in the year to October. Real personal disposable income has been growing strongly and its growth is likely to be maintained at close to 3 per cent over the coming year. Consumer spending power will be boosted by a stream of payouts from building societies converting to public limited companies. Unemployment is falling and employment rising. Everything, in short, is now conspiring to persuade British consumers to spend, spend, spend.

The Red Book forecasts consumers' expenditure rising 4¼ per cent next year and GDP growth at 3½ per cent. But it is also forecasting retail price inflation (less mortgage interest) at the end of the year at 2½ per cent. Every one of these forecasts could turn out to be considerably higher.

Mr Congdon is forecasting economic growth at 4.2 per cent next year. That seems perfectly plausible. Mr Gavyn Davies of Goldman Sachs is also warning of the risks ahead, albeit more cautiously. Do not ignore them, whatever the other wise folk say.

Their obvious reaction would be that supply can rise to meet the growth in demand. To that there are three replies:

- The first is that this was also said in the 1980s.
- The second is that the so-called output gap is not just an unknown quantum but a myth because it rests on the absurd assumption that there is a precise level of aggregate supply below which there is no inflationary pressure.
- The third is that there is a speed limit to growth, which depends on the rate at which new workers can be brought into employment and new capacity installed.

Consistent growth at above 3¼ per cent would almost certainly raise inflation. With job vacancies above their long-term average, the output gap may itself be small. What is needed most of all, therefore, is room to accommodate extra investment. But that is what a headlong expansion in consumption would rule out.

Yet the best of all leading indicators of disaster must be the tone of your opening remarks last week: "The British economy is today prosperous and successful. This Budget will make it even more prosperous and an even bigger success over the coming years." How often have your predecessors hailed the later stages of a cyclical recovery as the new dawn!

The economy may well be more flexible. But it is still vulnerable to overheating. The economy will not grow steadily if you do not take the decisions to bring the rate of growth of money and credit – now the fastest in the Group of Seven leading industrial countries – to more sustainable levels.

It is not easy to take determined action within a few months of an election. But the important thing to remember is that if you act decisively, with at least a half a percentage point rise in the base rate now, which will almost certainly need to be followed by another half a percentage point in the New Year, you can always reverse these rises later on. The price would be perhaps a few months of lower than hoped for growth.

If you were to fail to act and demand ran out of control, it might take years to remedy the error. This would be known as the Clarke boom – and the Conservatives would have inflicted the long-term costs of a short-term spending spree for the fourth time in four decades.

Yours sincerely,

Martin Wolf

Philip Stephens

Big hitters needed for the long slog

Geoffrey Howe had an apt cricketing metaphor for the phenomenon. On his departure from Margaret Thatcher's government, Lord Howe recalled that ministers arguing the British case in Europe were regularly undermined by the then prime minister's casual dismissal of policies agreed in cabinet. Her opening batsmen often appeared at the crease only to find that the team captain had broken their bats before the game.

Kenneth Clarke could be forgiven a distinct sense of deja vu. As the chancellor arrived in Brussels for the latest discussions of European finance ministers on a single currency, he was once again being undermined in London. The respected political editor of The Daily Telegraph declared on that newspaper's front page that John Major was determined to fight the general election as the champion of sterling. The prime minister had decided he wanted nothing to do with the nasty euro. The pro-European Mr Clarke, the last British minister with real clout in Brussels and the main defender of the present wait-and-see policy, would be overruled.

Downing Street's official response was that the government's policy had not changed. For now, it was preserving the two-way bet negotiated by Mr Major in the Maastricht treaty. But there was nothing in the denials to undercut the central premise that the prime minister would like to change the policy before polling day. That was for good reason.

Whatever the provenance of the latest story, Mr Major insists in private that he would not take Britain into Emu during the lifetime of the next parliament. For all the protests to the contrary at the party conference in October, close aides readily acknowledge that he would like to say as much before the election. The prime minister believes that there are votes in labelling Labour as the party which would scrap the pound. He feels comfortable wrapped in the national flag. The searing experience of sterling's ejection from the exchange rate mechanism also convinced him that a single currency will not work.

His instincts are widely shared within the cabinet. The Eurosceptics, of course, have long insisted that Emu represents a wholly unacceptable transfer of sovereignty from Westminster to Europe. Some half-a-dozen of Mr Major's senior colleagues – the ones he used to refer to as bastards – would rule out sterling's participation in perpetuity.

Others offer a more pragmatic logic for saying now that the Tories would safeguard the pound. Since joining Emu during the next parliament could only be done at the expense of an irrevocable split in the party, why not make a virtue out of necessity?

Mr Brian Mawhinney, the party chairman, never tires of telling colleagues that such a move would reunite the Conservatives in the run-up to the election. He has a long-standing ally in Stephen Dorrell, the health secretary. Malcolm Rifkind, the foreign secretary, shares their inclination, though he is shrewd enough to see the dangers of a confrontation with Mr Clarke.

These would-be leadership contenders are also positioning themselves ahead of what they still expect to be a defeat at the election. Loss of office, they judge, would presage a further lurch towards the Eurosceptics. Those seeking a place in the beauty contest want to make sure now that they are on the right side of that shift.

The outstanding question then is whether Mr Clarke can be persuaded or overruled. If Mr Major wants to retain his remaining slim chance of winning the election, he will conclude the answer is an unequivocal no. Earlier this year, the chancellor was manoeuvred into a corner over the offer of a referendum on the issue. He will not be budged again.

There are circumstances in which Mr Clarke could be prepared to argue that Britain should stand aside from the first wave of Emu. But those conditions – essentially the indiscriminate fudging by other governments of the economic convergence criteria – are scarcely likely to be apparent before the election. Nor will the present negotiations between finance ministers on the terms of a fiscal stability pact be completed before polling day. Mr Clarke does not intend to leave Britain with an empty chair at those talks.

But there is anyway a more important point. The chancellor understands that were the Conservatives to fight one election on a platform of preserving the pound, that would fix the policy for a political generation. The anti-Emu stance would become one of principle rather than pragmatism. Fairly soon it would redefine the Conservatives as the party of nationalism rather than of Europe. That may happen anyway after the election, but Mr Clarke does not intend to permit it now.

In spite of the speculation otherwise, Michael Heseltine, the deputy prime minister, takes the same view. He is on Mr Clarke's side, as committed to Britain's future in Europe as the chancellor. This is not an alliance Mr Major would be wise to confront. If he is tempted, he might recall Lord Howe's metaphor. After a time, Baroness Thatcher's best players got fed up playing with broken bats. They decided to leave the field. And we know what happened then.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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'Libertarian' values affirmed only by the most rapacious

From Ms Debra Mecher.

Sir, Having been a reader of Mr Michael Prowse's weekly "America" column for the better part of these past six years, I must say that I found it more than a little curious to learn in his final column ("A deep sense of gratitude," November 25) that Mr Prowse fancies himself a "libertarian", and that it is above all my country's "libertarian" values and its "commitment to the freedom of individuals" that he cherishes most about it.

Poppycock, Mr Prowse. Whereas I'm forced to take his word for it that he has "become steadily more attracted to a libertarian political philosophy" since moving to the US in 1990, Mr Prowse should stop blaming Americans for having imparted to him a political philosophy that none but the most rapacious of us affirms.

Amazingly, Mr Prowse says that my country has "all but eliminated the horrible class and status distinctions which still disfigure European and Asian society". Leaving the Europeans to fight their own battles, this assertion is false – tragically false. I can only presume that the US appears radically better than it really is, when one looks at from the dining room of a country club or the window seat of a private jetliner. Mr Prowse's contention is balderdash.

For every constraint on the power of the federal government that Newt Gingrich, the House Speaker, and his acolytes among the corporate-funded think tanks have preached, there are dozens of constraints they'd happily lift from the shoulders of the transnational corporations that fill the rankings of the Fortune 500.

Mr Prowse is free to call that philosophy and those values libertarianism if he likes. But the individuals who are being crushed by this narrow conception of freedom will quite understandably beg to differ.

In the end, Mr Prowse's version of libertarianism reminds me of the Big Lie which, though well dressed, is easily undone.

He that once deceives is ever suspected, Mr Prowse.

Debra Mecher,
2220 W. Iowa St,
Chicago,
Ill. 60622, US

Said's gift leaves Oxford business school assured of academic freedom

From Dr Peter North.

Sir, Contrary to the impression from Professor David Smith's remarks ("Oxford to re-open talks with Said," November 29), control of the business school would not reside with the foundation through which the proposed £20m ($32m) benefaction would be made.

The university's council has sought an opportunity to review the terms of the foundation, but it is worth restating that, under the existing terms, the foundation would have no jurisdiction over academic matters.

Indeed, this was patiently explained by Mr Wafic Said himself in his letter in your columns (November 15).

The foundation would have a "right of approval" over the appointment of a director, but it could not impose a candidate, nor withhold approval unreasonably.

Also, while the university would not appoint a majority of trustees, all appointments other than that of the vice-chancellor and the benefactor himself, would have to be approved by the vice-chancellor, and would necessarily, therefore, have the interests of the university, and this project, very much at heart.

The trustees would also have power to deploy certain funds in support of the school, but only for that purpose (in effect, income from an endowment of £4m, being part of the matching funds raised by the university, the balance of £16m for the endowment posts being held and administered by the university).

The foundation would not be dissimilar from that which for 60 years has administered Lord Nuffield's great benefaction to Oxford for the benefit of our medical school.

Although the foundation would "hold" ownership of the site, and the new building it has funded, the business school would operate within this building in a way no different from that of any other university department.

Peter North,
vice-chancellor,
Oxford University,
University Offices,
Wellington Square,
Oxford,
OX1 2JD,
UK

Reliance globally competitive and still an active stock

From Mr M. Panikar.

Sir, Your profile of our company is wide of the mark (India survey: "A colossus falls down", November 19). We never claimed that we were kings, although the role played by our chairman in creating an equity culture in India is well recognised.

Let me clarify our position with regard to the other issues.

- Activity in Reliance Industries shares has not dried up. Average turnover is more than 10m shares per day.
- We did not comment on the analyst poll because it was released a few days before the actual announcement of results. The fact that our results were better that what the poll had indicated was not a surprise to many of our investors whom we had met during the year.
- Consistent with international practice, the company had made an announcement about the private placement made with India's largest financial institutions two years ago.
- The merger of two downstream units was carried out with the unanimous approval of all shareholders, creditors, high courts and government departments. Valuation of shares was carried out by S.B. Billmoria & Co, the then member of Ernst & Young International. The shares dispute issue has been examined by regulatory agencies and courts in India have ruled that there was no intentional default. It was a systemic failure due to the large volume of transactions being handled manually. The company is now working with both Arthur Andersen and Price Waterhouse to strengthen the system.
- We have, over the years, built globally competitive assets in India and it is our belief that we can compete. Despite a significant fall in peak tariff, our net margins have improved from 5.5 per cent to 16.8 per cent in the past five years.
- The fall in the share price has to be viewed in the context that the Bombay index has fallen from 4,600 to 2,900 due to macro-political and economic reasons. It is also now well recognised that Reliance, being a liquid stock, was the target of an organised bear cartel attack.

We are committed to achieving earnings growth. We also believe in transparency and we have an active investor relations programme around the world.

M. Panikar,
managing director,
Reliance Europe,
Bastion House,
140 London Wall,
London EC2Y 5DN, UK

COMMENT & ANALYSIS

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Tuesday December 3 1996

Implementing peace

The Dayton peace agreement, which came into force a year ago this month, has so far brought peace to Bosnia in a strictly negative sense: the country has been spared any more of the large-scale fighting which devastated so much of it, and uprooted so many of its inhabitants, between 1992 and 1995. But Bosnia remains divided into three territories controlled by mutually hostile leaders.

This is an unstable situation, as Nato implicitly recognised last week when it agreed that the present Ifor (Implementation Force) should be replaced by a 31,000-strong S-For (Stabilisation Force), which can remain in the country until mid-1998. But the change of name should not be taken to mean that the agreement has now been implemented and only needs to be stabilised. For the agreement's detailed provisions describe a very different outcome, in which there would be freedom of movement throughout Bosnia and most Bosnians would return to their original homes, even where that meant living under the rule of a different ethnic group.

Delegates to the international peace implementation conference, which opens in London tomorrow, need to make up their minds how much of that programme they are still committed to, and then make sure that responsibility for carrying it out is clearly apportioned, among people with the authority and resources necessary to fulfil their tasks.

Many will think, though few will officially say, that repatriation was always a pipedream and that coexistence between three ethnically homogeneous statelets is the only form of peace realistically attainable. Some such calculation was implied by the international community's unseemly willingness to ratify last September's election results, which consolidated the power of nationalist leaders in all three parts of Bosnia amid widespread fraud and intimidation. It was also implicit in the west's failure to insist on the arrest of people indicted by the war crimes tribunal in The Hague.

It is a very risky calculation, because it means leaving the Bosnian Moslems cooped up in a wedge of territory between entities controlled by their bitter enemies but containing many of their homes as well as the remains of their slaughtered relatives. Either those people, whose army is being armed and trained by the US, would sooner or later seek to regain lost territory by force, or their anger would spill over into terrorism, no doubt encouraged by other disaffected Moslem states such as Libya and Iran.

Some will argue Dayton could only be fully implemented under an international protectorate. But that is virtually what Bosnia has been for the past year, and will now remain for at least another 18 months.

The vast investment of troops, money and prestige already made can only be justified if used to insist on implementation of the agreement, and to break the power of the warlords who seek to prevent that happening. Even if the full repatriation of displaced people is a utopian idea, freedom of movement, communication and trade between the constituent parts of Bosnia are essential to any lasting peace.

Failing schools

Nothing, it might be argued, concentrates the mind like the threat of being sued. Newspapers faced with the libel law know all about that, as do doctors and other professionals who risk actions for negligence.

But there remains something profoundly disquieting about the prospect of two pupils now aged 17 sueing their former schools for failing to deliver them satisfactory GCSE results. Both schools, according to the youngsters' lawyers, had been labelled as "failing". Ergo, the lawyers argue, their pupils should be compensated.

A dozen years ago, there might have been a case for this. Schools that let down their pupils were dealt with by the local authorities which managed them. A school which did badly by its pupils in a local authority which did badly by its schools could continue for years with little remedy. The odd action for a failure of duty of care might have had a revolutionary effect.

But that is no longer the case. In the 1990s, schools are independently inspected. Those found to be "failing" – and 200 have been so far – are required to produce an action plan. If it proves unacceptable, or it in turn fails, an educational hit squad can be put in. The school is then either reconstituted or closed. Traumatic though this procedure is, the outcome from this new emphasis on standards and quality should in the end be fewer failing schools.

Yet it is the very openness of the new system – public disclosure often accompanied by national exposure – which appears to have provided the basis for the planned litigation.

This cannot be in the public interest. Limited public funds should not be diverted from putting schools right rapidly for the majority into contentiously compensating a minority: not least when education – unlike, say, risky surgery – is not a one chance affair.

The other element which appears to have created this action is a recent decision by Royal Sun Alliance to settle for £30,000 rather than fight a case involving school bullying.

If the insurer is not regretting that decision now, it should be – and it was good to see the other main schools insurer, Zurich Municipal, state yesterday it would defend the present cases if its schools are involved. Royal Sun Alliance should do the same. If the schools lose, the law may need to be looked at.

Cost temptation

National Westminster's brief flirtation with the idea of selling stationery to its corporate customers illustrates the temptation of turning a cost into a profit centre.

The process starts when a company discovers how much of its costs lie in the corporate plumbing: fleet management, purchasing, data processing, premises management. Stage one in the cycle is to impose straightforward cost cuts.

Once the obvious cuts are past, entrepreneurialism leads to stage two: finding outside customers. This is the step NatWest pondered: whether to allow its stationery buyers to sell their services elsewhere. Learning that its customers in the stationery business were not thrilled with the idea of competition from their bank, NatWest said no. Often enough, however, companies say yes.

This leads to computer departments that process other people's data, to van fleets that carry other companies' goods, to libraries that perform external contract research, and so on.

Stage two often proves short-lived. The core competence of providing photocopying services to National Widget can prove difficult to transfer to the global marketplace. Unless the cost centre over-charges internal customers, it can rarely match the profitability of the company's main business. Yet its notional status as a profit-centre allows it to escape the full rigours of the cost squeeze. Internal customers rebel, believing – not always correctly – that they can obtain better service elsewhere.

This leads on to stage three, in which the whole activity is outsourced. The cost centre is floated off as a separate company, or transferred to a larger business that specialises in the field. This, more recent, trend has yet to reach full maturity. In at least some cases, however, it is only partly successful. Gradually, an in-house facility re-establishes itself, to smooth the edges of the contractual relationship. In time, the cycle starts again.

Some lessons: first, a well-managed cost-centre is better than a badly managed one which claims to be a profit centre as well. Second, outsourcing works best if approached as a big strategic shift rather than a response to past failures of cost control. And third – NatWest, this means you – if you suspect your customers might object to you competing with them, they probably will.

High price of democracy

The new Thai government aims to dispel accusations of corruption with the promise of a new constitution, says Ted Bardacke

Democracy is an expensive business in Thailand. According to the Thai Farmers Bank Research Centre, Thai politicians spent nearly $1bn (£595m) in the latest election campaign which this week saw General Chavalit Yongchaiyudh sworn in as the country's new prime minister.

But the country does not appear to have got its money's worth. Amid widespread complaints about vote-buying and intimidation, Gen Chavalit's rural-based New Aspiration party scraped home as the largest party with 125 seats in Thailand's 393-seat parliament, just ahead of the Democrats with 123 seats. As a result Gen Chavalit, a soldier turned politician with a history of indecisiveness, presides over an incoherent six-party coalition with uncertain prospects.

Thailand's much-vaunted democracy – it boasts one of the few fully democratic systems in east Asia – has still not produced a government that inspires confidence in its ability to maintain the country's increasingly fragile status as a "tiger" economy.

The previous administration of Mr Banharn Silpa-archa, much of which Gen Chavalit has inherited, was widely regarded as both corrupt and incompetent. "I wouldn't give most ministers jobs in my company," says Mr Thaksin Shinawatra, the former deputy prime minister and telecommunications tycoon who decided not to run in the last election. "They are in power to make money to stay in power to make money."

During Mr Banharn's 16-month tenure, Thailand had three finance ministers, two central bank governors, two heads of the Securities and Exchange Commission and two stock exchange presidents. He also created several ad-hoc advisory committees which interfered with the normal workings of the central bank, the finance ministry and the commerce ministry.

Now the fear is that his successor's administration will see its main task as retrieving the $1bn spent on the campaign by milking the government budget and awarding contracts and concessions to political cronies. That raises the question of whether the kind of money-politics that prevail in much of Asia can produce governments capable of tackling serious policy issues.

Although the Democrat party makes a decent stab at representing modern democratic values and aspires to clean government, parties whose purpose is the promotion of a clear policy programme remain rare in Asia. Often their concern is to service extensive business connections.

Having shown that it can oust a prime minister and still preserve the fabric of its democratic system, Thailand needs a government with firm policies and the skills to carry them out.

Its problems are not just immediate – $41bn in short-term foreign debt, a wide current account payments deficit and a shrinking economic growth rate. It also faces the structural challenges of upgrading the skills of its workforce to cope with modern manufacturing, and reducing the large wealth disparities between Bangkok and the countryside.

Gen Chavalit formed his cabinet via a traditional quota system whereby each of the six parties has one ministerial post for every five MPs it controls. During his campaign he had promised to do away with this system and give Mr Amnuay Viravan, a former banker, free rein over five key economic ministries.

Now Mr Amnuay, the new finance minister, will be isolated and surrounded by ministers chosen by former premier Gen Chatichai Choonhavan, a crucial coalition partner and leader of the Chart Pattana party.

Gen Chavalit says he remains firm in his determination to back Mr Amnuay against other ministers if necessary, but he needed to bring in Gen Chatichai so as to avoid presiding over exactly the same coalition of parties which supported Mr Banharn, a guaranteed public relations disaster. But Gen Chatichai came at a hefty price: control of several economic ministries, known as "A-grade" portfolios because of the amount of money and contracts under their supervision.

In the late 1980s Gen Chatichai presided over unprecedented levels of economic growth based largely on asset inflation and Japanese investment, until he was ousted in a coup and declared "unusually rich" by a government investigation.

Both Gen Chavalit and Gen Chatichai owe their political strength to the votes of rural people, who account for about three-quarters of the population and more than 90 per cent of the electorate. Together their parties won only two of the 37 parliamentary seats in Bangkok, where 40 per cent of Thailand's gross domestic product is concentrated.

Of the 5,512 reports of election irregularities filed with Poll-Watch, the election monitoring group, Gen Chavalit's New Aspiration party was the top offender with 1,777 complaints; number two was Gen Chatichai's Chart Pattana party with 799. More than half of these complaints were for buying votes with cash.

Rural people routinely sell their votes, but doling out cash at election time is only part of the trick to getting elected in the provinces. Because Thai administration is highly centralised – even garbage collection in rural villages is controlled from Bangkok by the Interior Ministry – successful rural MPs must also act like local government representatives or patrons. They have to mediate in disputes, paying for coffins at funerals and securing funds from Bangkok to pave roads and install running water.

The incentive for most MPs to develop the national policy expertise that urban voters crave is almost nil.

"The middle class is certainly correct in saying that the champions of local interests may turn out to be villains at the national level," says Mr Anek Laothamatas, vice-rector of Thammasat University. "But the rural electorate is not selfish or irresponsible toward the public interest. Candidates who advance the prosperity of their villages are always viewed in a good light. Most money is expended between elections, maintaining established loyalties, not as a one-time bribe."

Perhaps this is why few urban Thais blame rural people for voting in bad governments. There is disappointment in Bangkok at the outcome of the recent election, but little outrage and few signs of unrest.

Gen Chavalit's former position as army commander-in-chief will help keep the military at bay. More important, the frustration over the failings of the Thai democratic system that forged a tacit alliance between the armed forces and the urban middle class – and made a string of military coups possible in the 1980s – does not exist today.

Part of the credit should go to the opposition Democrat party. It has lost each of the last two elections by a handful of seats but knows that encouraging public protests could easily provoke a military reaction.

In any case, political tensions have been eased by plans for a new constitution. Before he stepped down, Mr Banharn set in motion a process whereby a 99-member constituent assembly will draw up a new constitution within a year.

Hopes are high that some of the proposals – separating the executive branch from the legislature, proportional representation, confirmation hearings for cabinet members, local powers to tax and spend – will result in better national government.

Gen Chavalit has promised to dissolve his government when this constitution is ready and call an election under new rules in about 18 months. "For a country with a history of tearing up constitutions, the process is refreshing," says Mr Ammar Siamwalla of the Thailand Development Research Institute, an independent think-tank. "Things are more open and there is far more public debate about substantive issues."

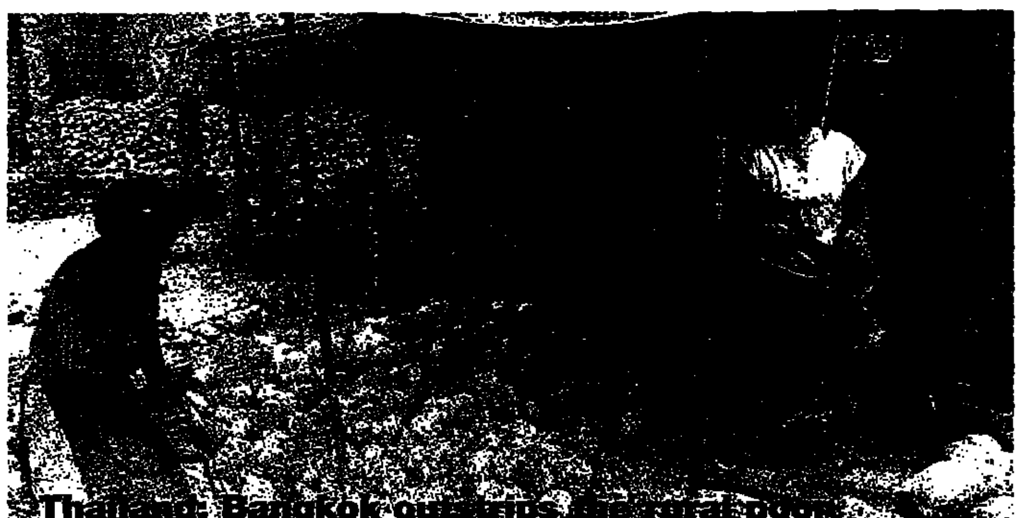
At the end of her recent book Thailand's Boom! Ms Pasuk Phongpaichit, Chulalongkorn University economist, sketches out a few scenarios for the next decade. The most pessimistic has Thailand going the way of Brazil in the 1970s, when a boom ended in fast-rising inflation.

To avoid this, she recommends heavy government investment in infrastructure and human resource development, fiscal incentives for high-tech export production, and forced savings. Also needed are measures to expand productivity in the agricultural sector and to introduce elected local governments.

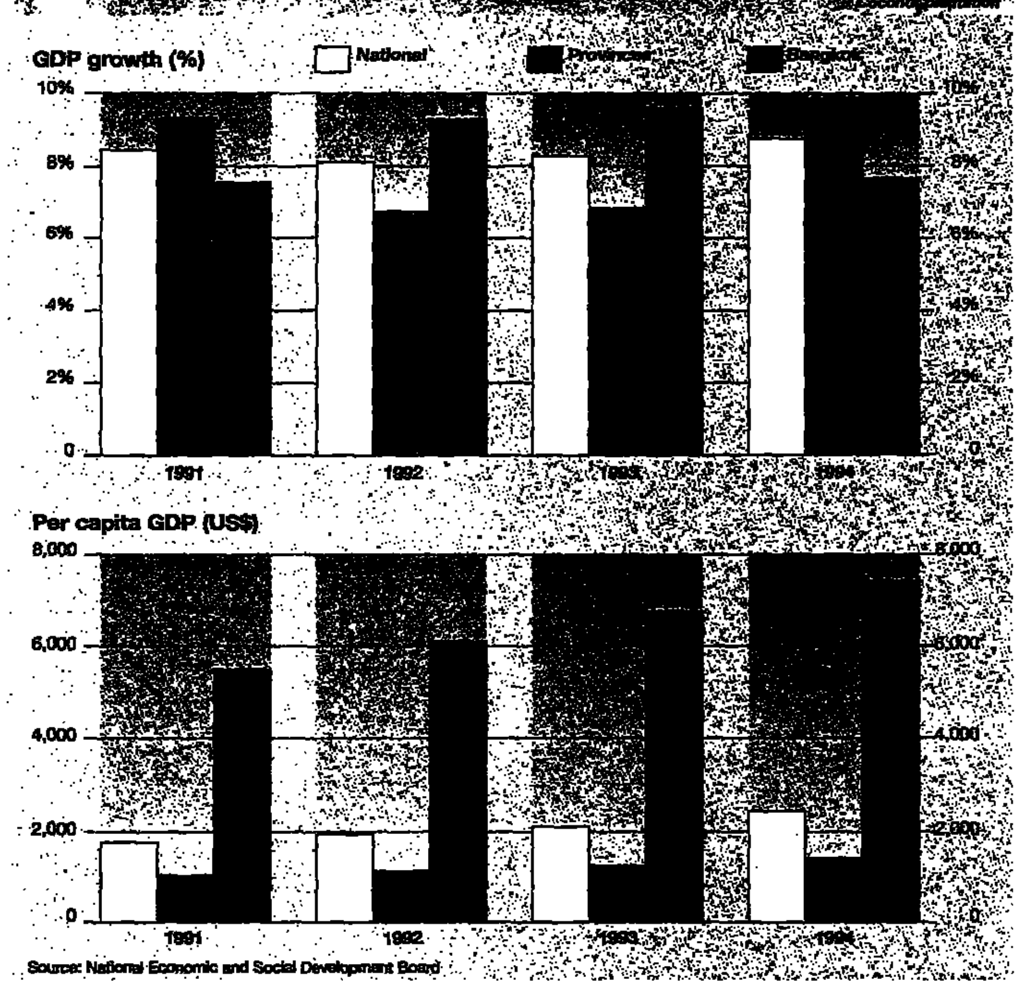
Asked if the election outcome meant the Brazilian scenario was now likely, Ms Pasuk says: "No way. That's much too extreme."

By the standards of recent years, however, the outlook is not particularly rosy. Thai economists are starting to predict medium-term annual economic growth in the 5 per cent to 6 per cent range, compared with about 8.5 per cent now. While that would be cheered in a fully industrialised economy, many Thai companies have borrowed and made investments on the assumption of growth of 10 per cent or even more. Thai politicians, accustomed to short-lived coalition governments, have looked for quick returns as well.

Weaning the private sector and the politicians from these expectations would be hard enough in a stable political environment; in the midst of an attempt to reform the democratic process, it will be exceptionally difficult. Economic growth, says Ms Pasuk, "won't be very good, but we have to come to terms with that for two, three, maybe even five years". And, she warns, "the short-termists, who represent such a small portion of the whole economy but cause so much agitation, will not like it at all".



Thailand: Bangkok outstrips the rural poor



· O B S E R V E R ·

Better late than never

■ Another reminder from Theo Waigel, the German finance minister, that if economic and monetary union happens it will be on German terms. EU finance ministers in Brussels spent most of yesterday waiting for Waigel to arrive. Without him, they knew there was no chance of doing a deal on the German-backed budget stability pact.

Waigel is an infrequent visitor to Brussels, preferring Bonn or his native Bavaria, and letting his hard-nosed deputy, Jürgen Stark, handle the minutiae. This time, however, Waigel had a good excuse for his tardiness – he was attending the funeral in Munich of Hans "Johnny" Klein, the CSU politician who used to be Chancellor Kohl's spokesman.

His late arrival in Brussels may also have improved prospects for a compromise on the stability pact. For in Waigel's absence, Kenneth Clarke, the UK Chancellor, took centre-stage. Aware that a horde of London-based lobby correspondents had trailed him to Brussels, the fast-talking Clarke broke his usual laid-backed routine and gave two news conferences, in which he demonstrated a mind-numbing mastery of the Maastricht treaty – which in the past he claimed never to have read – and clauses relating to the legal status of the euro.

The British hacks duly scribbled everything down, but looked to be suffering from a severe case of culture shock. Clarke clearly enjoyed giving an object lesson in how Britain can influence the Emu negotiations – rather than sitting on the sidelines as most Euro-sceptics seem to want.

House of cards

■ To build "The House" – as prime minister Torbjoern Jagland's new government grandly describes his aim of revamping Norway's infrastructure – a master builder in the form of Terje Roed-Larsen was first called in as planning minister.

He didn't last long. Last week, after a month as chief concrete mixer, Roed-Larsen resigned amid questions over earlier personal financial dealings.

Step forward Bendik Rugaas, now promoted to the same role. Even Norwegians have been asking themselves who Rugaas might be. He was born in Kirkenes, about as far north you can go before reaching the North Pole. He has spent a distinguished career in libraries, ending up as Norway's national librarian. He has no known political background, but did join the governing Labour Party on Wednesday last week – two days before he was appointed.

And that's about it.

Of course his promoters have been rallying round to emphasise his intellectual qualities, as well as his interest in information technology, both of which should fit him for overseeing long-term national planning.

But the omens are not wonderful. Rugaas has already been spotted on Norwegian TV, using coloured crayons to draw a more literal version of the very same House. It looked shaky . . .

High-class fridges

■ At the same time as Alexander Lukashenko, president of Belarus, was coming under fire at the Organisation of Security and Co-operation in Europe summit meeting in Lisbon yesterday for allegedly undermining democracy, a stirring hymn to his country was being circulated in the press centre.

Journalists were told not only that Belarus annually manufactures more tractors – 100,000 – than any other European country, but also that the country's "cinematography is marked for its traditional humanness and deep thought". While the republic's factories are busily churning out 45m pairs of shoes a year, poets are writing "masterpieces that few can match for sweetness, depth and magic". Belarussians also annually produce 800,000 "high-class refrigerators".

But there are deeper questions: "Sometimes you may wonder: Is there more Slav heartiness and meditation than European rationale and tradition in them?" We'll pass on that.

The pipe of peace

■ Football-mad Italy was in ferment yesterday over news of the sacking of AC Milan's coach Oscar Tabarez on Sunday night, and his replacement by Arrigo Sacchi, who is resigning as national team coach.

This might restore the fortunes of former premier Silvio Berlusconi's team, which last year was the top division champion but is currently languishing in ninth place. But it certainly didn't impress the Vatican's daily newspaper, L'Osservatore Romano. In last night's issue it scolded other newspapers for giving the changeover too much space, calling it an "opium" that was distracting people from serious political issues.

As Karl Marx might have said, footballers have only interpreted the world in various ways; the point, however, is to change it.

The Financial Times

100 years ago

Report From The Reichstag: The German Finance Minister had a very favourable report to make yesterday on the state of the empire, and stated that the Budget for the year 1896-97 would probably show a surplus of 24,750,000 marks, of which, however, about nine millions would be absorbed by the supplementary estimates. Good as the Minister's showing is, the Debate in the Chamber has opened rather stormily, one of the Deputies protesting strongly against the policy of naval expansion adopted by the Government. We are likely to hear more of this before the debate is concluded, and it is not unlikely that the whole subject of colonial expansion will come up for discussion.

50 years ago

Anglo-Italian Trade Talks: Signor Mascia of the Italian Ministry of Foreign Affairs will lead the trade delegation which is leaving Rome for London on 6th December to begin trade discussions with the Board of Trade. Conversations are expected to deal with the possibility of increasing Italy's exports to Great Britain of fresh and dried fruit and vegetables, wine etc.

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FINANCIAL TIMES
Tuesday December 3 1996

Wall Street retreats at strong growth figures

Surge in US building and manufacturing

By Gerard Baker in Washington

The US economy continues to grow robustly with overall manufacturing business conditions improving last month and a surge in construction spending in October, according to reports published yesterday.

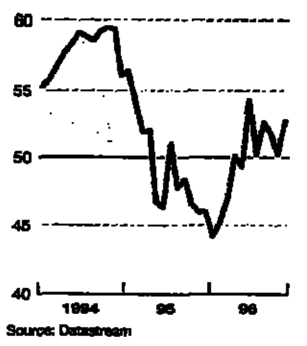
The figures appeared to unsettle financial markets, as investors interpreted them as evidence that the current stable pace of economic expansion may be accelerating.

The Dow Jones Industrial Average lost more than 38 points in morning trading, falling to 6,482, and bond prices also fell.

But while both reports indicated faster growth than forecast by most economists, there was little evidence of increasing inflationary pressures that might choke off the expansion.

The monthly survey of economic conditions by the National Association of Purchasing Managers (NAPM) suggested manufacturing growth accelerated in November. The survey's principal indicator of business conditions rose to 52.7 from 50.2 in October, the seventh time in the last eight months in which the index has been above the break-even figure of 50.

Purchasing managers' index



Source: Datastream

The improvement was mainly the result of strong growth in new orders last month accompanied by continuing robust industrial production. Manufacturers reported an increase in output for the eighth consecutive month. The association's production index stood at 58.6 per cent in November, up from 56.6 per cent in October, and the highest figure since January 1995.

But there were still no obvious signs of rising prices.

The survey's prices index fell for the second month in succession. The index dropped to 45.9 against 47.1 in October, suggesting a slight acceleration in the rate of price decreases last month.

New export orders remained strong in spite of the dollar's strength and sluggish growth in overseas markets.

Mr Ralph Kauffman, chairman of the NAPM's business survey committee, said the overall picture was one of continuing growth in manufacturing activity. He said purchasing managers were "somewhat more bullish" last month than in October.

The sharp increase in construction spending in October came largely from a big increase in government building contracts, the report from the Commerce Department said.

Over-all construction expenditure rose by 1.8 per cent from a month earlier, the third consecutive increase and the largest for seven months.

The increase in public construction spending of 4.3 per cent far outstripped private sector expenditure growth of just 0.9 per cent.

US and Japan sign accord over Okinawa troop bases

By William Dawkins in Tokyo

The US and Japan yesterday agreed details of a far-reaching plan to assuage local opposition to US military bases on the Japanese island of Okinawa, the biggest US security presence in east Asia.

The accord stipulates that one-fifth of the land occupied by the US military in Okinawa will be returned to local landowners within 12 years.

It envisages moving a marine helicopter base to a 1,500-metre offshore airfield to be built off the coast of the island at an estimated cost of $2bn, which will be borne by the Japanese government. However, the 28,000 marines will stay on the island.

The deal is the fruit of more than a year's sensitive negotiations between the US and Japanese governments and consultations with Okinawa's local government.

Yet it received a mixed reception in Okinawa, where some local politicians argued that it ignored local people.

Mr William Perry, the US defence secretary, said: "This agreement very significantly reduces the burden on the Okinawan people while at the same time preserves the vital security mission which our forces are there to perform."

Mr Perry and Mr Walter Mondale, the US ambassador to Japan, signed the accord in Tokyo with Mr Yukihiko Ikeda, the foreign minister, and Mr Fumio Kyuma, the director-general of the defence agency.

Okinawans' sensitivity to their island being used as a military outpost for the mainland dates back to 1945, when more than 100,000 islanders, a third of the total, died in the worst land battle on Japanese territory. US troops have never left the island since.

Both governments believe American troops are still needed to project US force into south-east Asia and thereby underpin security in a region riddled with territorial disputes, overshadowed by the military power of China and worried by an unpredictable North Korea.

Okinawan residents' have long argued they have borne an unfairly large share of the US military presence in Japan since the end of the second world war.

Their demands intensified when a local schoolgirl was raped by three US servicemen last year, an incident that triggered the biggest anti-US military demonstrations seen in Japan since the 1960s.

Poland to sell bank stakes worth $1.5bn

By Christopher Bobinski in Warsaw

The Polish government is planning to sell bank stakes worth a total of more than $1.5bn next year, according to Mr Ryszard Pazura, deputy finance minister.

Mr Pazura also set out a new strategy for the privatisation in the first half of 1997 of Bank Handlowy, one of the country's largest and most reputable financial institutions.

He said a 30 per cent stake would be placed with a strategic investor and up to 30 per cent sold on the Warsaw Stock Exchange. Another 30 per cent would be handed to pension funds to be set up under the country's pension reforms.

The government also intends to sell shares in Warsaw's Powszechny Bank Kredytowy (PBK), and its residual holding in Bank Gdanski, privatised a year ago.

HSBC Investment Services which yesterday signed a contract to advise the government on the sale of PBK, puts its value at around 1.5bn zlotys ($517m). Up to 65 per cent of the bank's equity is to be offered to a strategic investor while a further 15 per cent is to be floated in Warsaw later next year.

Meanwhile, National Bank of Poland, the central bank, is planning to conclude the sale of its wholly-owned Polish Investment Bank (PBI), as well as Prosper Bank and Lublin-based First Commercial Bank, in the first half of next year.

The government is proceeding with these sales in spite of the likelihood of strong opposition in the run-up to parliamentary elections next autumn.

The right wing, nationalist opposition, led by the Solidarity trade union is expected to attack the former communist-led government's privatisation policies for favouring both foreign investors and its own supporters to the detriment of the population at large.

Mr Krzysztof Kalicki, another deputy finance minister, said yesterday that the government would not allow politics to interfere with its disposals programme and that both foreign and domestic institutions would be bidding on an equal footing for the bank stock on offer.

Citibank and Chase Manhattan of the US as well as Bank of Tokyo have shown an interest in purchasing a strategic stake in PBK. They are expected to mount a challenge to a domestic group of investors led by the Kredyt Bank and the Polish Development Bank.

Schroders, the UK investment bank, is advising Bank Handlowy.

THE LEX COLUMN

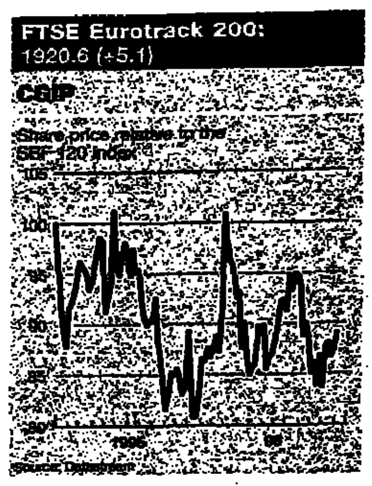
North Sea saga

Even by the standards of recent North Sea deals, the $1.2bn Saga Petroleum is paying to acquire Santa Fe from the Kuwait Petroleum Company looks frothy. By comparison with what relatively bullish analysts reckon Santa Fe is worth – $700m-$900m – Saga is paying a premium of the order of 50 per cent. Even assuming part of the gap can be explained away through over-caution on analysts' part, Saga is surely overpaying.

This would be more justifiable if the acquisition gave Saga an opportunity to add much value. To be fair, there should be some cross-fertilisation of expertise. But this hardly looks enough to justify a $400m premium. In the bulk of Santa Fe's business, the opportunity to add value is nil because Santa Fe does not even operate its own platforms. Saga's decision to buy looks a classic case of a company keen to find any use for its cashflow other than handing it to its shareholders.

Nonetheless, confirmation of the deal will doubtless give a healthy further boost to the share prices of Lasmo and Enterprise Oil. Just as important as Saga's price being unusually high is the fact that Santa Fe was also courted by several high-paying runners-up. Still, gambling on overpaying bidders is a risky game. If the UK explorers' shares – which have risen sharply in the past year – do spike up on the news, it will be a good opportunity to take profits.

FTSE Eurotrack 200: 1920.6 (+5.1)



Source: Datastream

Asian markets

The roar of Asia's dragon and tiger equity markets has turned into a miaow. Slower export growth encouraged by a stronger US dollar – to which many Asian currencies are tied – combined with fiscal measures to rein in over-heated economies have led to a comparatively subdued period for corporate earnings. Domestic investors have been feeling the pinch, while the US punters who drove these markets to stratospheric levels in 1993 have been having more fun at home. As a result, with the exception of Hong Kong and China, Asian markets have underperformed the US considerably this year.

However, austerity measures are beginning to ease across the continent, so earnings growth could be about to accelerate at a time when valuations have contracted. At present, the main source of recovery has been China, where looser credit is discernible in the 80 per cent rise in local share prices this year. This will drive trade flows within the region and investment in Hong Kong and Taiwan. A cyclical recovery in Japan will help, particularly in the more export-oriented economies such as Malaysia, where exports make up 85 per cent of gross domestic product. Furthermore, recovering US semiconductor demand will boost the struggling Singaporean and South Korean economies. When US interest rates rise, that could temper investor enthusiasm. But the strength of the recovery in China should ensure a prosperous new year for the markets most closely linked to it.

French conglomerates

Mr Ernest-Antoine Seilliere was on typically rumbustious form yesterday. But for all his preaching the virtues of conglomerates such as Compagnie Genérale d'Industrie et de Participations, which he chairs, investors are unconvinced. Holding companies such as CGIP generally trade at big discounts; their very existence, the market is saying, destroys value.

This need not be so. In an immature equity market such as France's, which lacks strong institutional investors, holding companies ought to be able to play a role in applying tough disciplines to subsidiaries and rationing capital. Moreover, such conglomerates tend to be plugged into the French political system, meaning they are often well placed to receive licences and government contracts. Indeed, the market's recent love affair with Genérale des Eaux – which is pushing aggressively into telecommunications and has just seen a change at the top – shows that investors are willing to back a conglomerate with a good story to tell.

But there are snags. First, too often holding companies fail to control their associates, in which they frequently have only minority stakes. Second, political connections can be a two-edged sword, making conglomerates susceptible to wheezes that please government – witness CGIP's acquisition of 27 per cent of Valeo. All this suggests that investors should not worry about diversification *per se*, but whether top management cares about shareholders' interests.

UK mortgages

After a long period of playing second fiddle to borrowers, savers should finally be coming into their own. House prices are rising at around 8 per cent a year, and net mortgage lending is growing so rapidly that demand for funds could soon outstrip supply.

This is a far cry from most of the 1990s when lenders were virtually bribing new customers to borrow and financing their efforts through wafer-thin deposit rates. But judging by yesterday's announcement from Abbey National, savers will have to be patient a little while longer: Abbey will be charging borrowers 25 basis points more, while savers are being offered an average improvement of only 15 basis points.

Still, the trend should eventually move in savers' favour. Lenders will need to spend more time attracting fresh deposits and less time chasing new mortgage business. This will require more competitive deposit rates than the 4.4 per cent gross rate currently offered by building societies. But lenders should be able to sustain margins since the increased cost of funds will probably be offset by cuts in the fat discounts given to first-time buyers.

The full force of this shift is currently obscured by the stasis before the pending conversion to plc status by four large building societies. Once this is removed next year, movement of funds, currently curtailed because savers do not want to lose free shares, will be more fluid. Then the battle for the retail pound will be joined in earnest.

Additional Lex comment on Racal, Page 25

Saga wins bid for North Sea oil company

Continued from Page 1

in new areas now being opened to exploration west of the Shetland Islands and off the west coast of Ireland.

Saga's purchase of Santa Fe will boost its oil production from 50,000 barrels a day to 190,000. Santa Fe has stakes in six producing oil fields, including Miller, Alba and Gryphon. It also has a 9 per cent interest in Britannia, the largest gas field being developed in the UK.

Santa Fe's exploration portfolio includes interests in 45 blocks in UK waters and 20 blocks on the Irish continental shelf. It is the second Norwegian company to make a UK North Sea acquisition, driven in large part by the desire to build up a presence in new deep water exploration areas along the Atlantic margin.

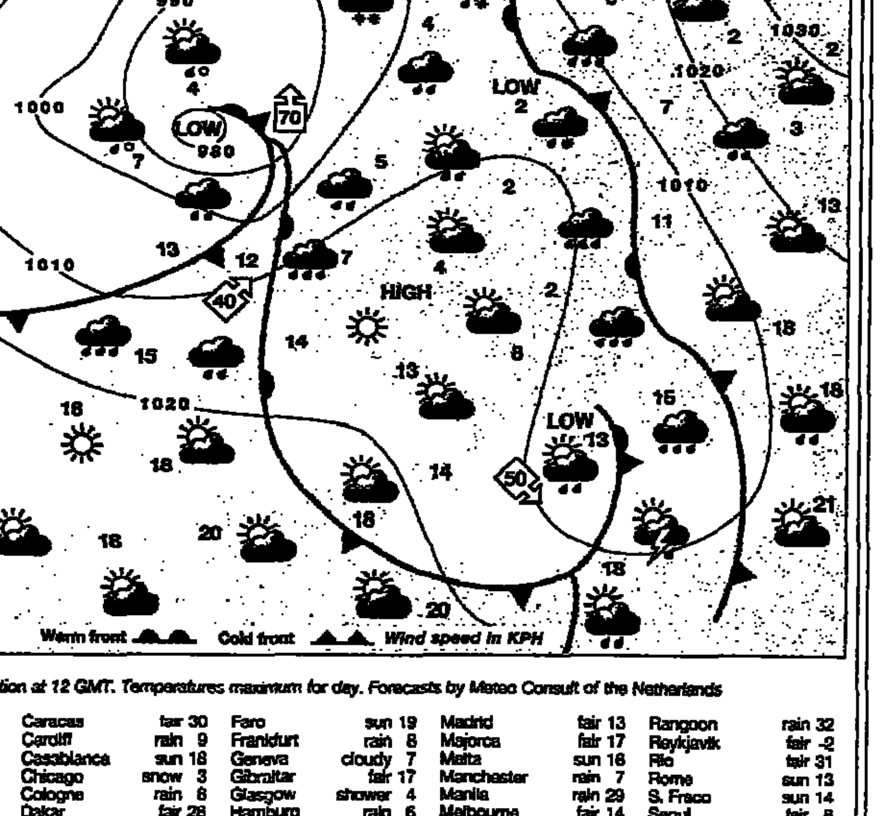
FT WEATHER GUIDE

Europe today

An active low pressure system will cause very unsettled conditions with strong winds and rain over the Benelux and northern France. In its wake, cloud and showers will be interspersed with a few breaks, especially in southern England. High pressure will promote settled conditions with plenty of sun on the Iberian peninsula and in southern France and Italy. A ridge of high pressure will promote dry conditions with sunny spells over the northern Balkans and the eastern Alps. A low in the Aegean Sea will bring torrential rain to western Turkey.

Five-day forecast

Low pressure systems will cross the Iberian peninsula, resulting in unsettled conditions. The heaviest rain will be along the Cote d'Azur and in northern Spain. Low pressure in Turkey will gradually dissipate and will be followed by drier conditions in south-east Europe. More settled conditions will develop over central Europe owing to high pressure.



TODAY'S TEMPERATURES

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

	Maximum	Celsius
Abu Dhabi	sun	25
Accra	fair	31
Algiers	fair	20
Amsterdam	rain	7
Athens	shower	14
Atlanta	sun	17
B. Aires	fair	30
B.ham	shower	9
Bangkok	fair	34
Barcelona	fair	14
Beijing	sun	6
Belfast	rain	4
Belgrade	shower	4
Berlin	cloudy	5
Bermuda	cloudy	22
Bogota	fair	20
Bombay	sun	33
Brussels	rain	8
Budapest	fair	4
C.hagen	cloudy	6
Cairo	fair	21
Cape Town	fair	21
Caracas	fair	30
Cardiff	rain	9
Casablanca	sun	18
Chicago	snow	3
Cologne	rain	8
Dakar	fair	28
Dallas	sun	18
Delhi	sun	24
Dubai	sun	24
Dublin	shower	5
Dubrovnik	fair	8
Edinburgh	fair	5
Faro	sun	19
Frankfurt	rain	8
Geneva	cloudy	7
Gibraltar	fair	17
Glasgow	shower	4
Hamburg	rain	6
Helsinki	sleet	2
Hong Kong	fair	21
Honolulu	fair	26
Istanbul	rain	15
Jakarta	fair	31
Jersey	rain	12
Karachi	sun	28
Kuwait	sun	25
L. Angeles	sun	21
Las Palmas	sun	22
Lima	fair	24
Lisbon	sun	16
London	rain	11
Lux.bourg	rain	5
Lyon	fair	8
Madeira	sun	20
Madrid	fair	13
Majorca	fair	17
Malta	sun	18
Manchester	rain	7
Manila	rain	29
Melbourne	fair	14
Mexico City	fair	24
Miami	shower	27
Milan	sun	10
Montreal	fair	-1
Moscow	cloudy	3
Munich	cloudy	7
Nairobi	fair	25
Naples	sun	13
Nassau	fair	28
New York	cloudy	9
Nice	sun	15
Nicosia	thund	21
Oslo	sleet	2
Paris	rain	10
Perth	fair	25
Prague	fair	5
Rangoon	rain	32
Reykjavik	fair	-2
Rio	fair	31
Rome	sun	13
S.Frsco	sun	14
Seoul	fair	8
Singapore	shower	32
Stockholm	fair	4
Strasbourg	cloudy	9
Sydney	sun	26
Tangier	sun	18
Tel Aviv	fair	25
Tokyo	fair	11
Toronto	snow	1
Vancouver	sleet	8
Venice	sun	8
Vienna	fair	8
Warsaw	cloudy	3
Washington	sun	13
Wellington	rain	16
Winnipeg	snow	-11
Zurich	shower	6

FINANCIAL TIMES
COMPANIES & MARKETS
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Tuesday December 3 1996

IN BRIEF

Spanish bank in telecoms switch

Banco Santander dealt a blow to next year's start-up of Spain's second telecommunications operator. The country's biggest banking group had been widely expected to back the second operator, but revealed it had acquired shares in Telefónica, the existing telecoms company.
Page 20

Degussa rises on bright forecast
Degussa, the German chemical and metals group, surprised the market with an upbeat earnings statement and forecasts of a substantial increase in sales in its European business. The shares gained 3.9 per cent to close at DM663 in Frankfurt. Pre-tax profits rose 2 per cent to DM412m ($269m) in the year to September 30.
Page 21

Macquarie Bank rises to A$46m midway
Macquarie Bank, the Australian investment bank, has announced an interim after-tax profit of A$46m (US$37.5m), compared with A$37.9m a year earlier. The results follow the sale last week by the UK's Hill Samuel of its shareholding in the bank to Brunei Investment Agency.
Page 22

Talk of US bank mergers grows louder
US commercial banks are ready for another round of consolidation, say Wall Street analysts. Last week's $1.9bn acquisition by the Netherlands' ABN Amro of Michigan-based Standard Federal and news that Mr Eugene Ludwig, the comptroller of the currency, will make it easier for banks to diversify into non-banking activities have raised interest in banking mergers.
Page 23

Chinese B indices reach 1996 highs
In China, the Shenzhen and Shanghai B indices, which are restricted to foreign investors, reached 1996 closing highs amid hopes that Beijing would lift the shareholding restrictions. The Shenzhen B index jumped 10.5 per cent to a 1996 closing high of 157.68, representing a rise of 78 per cent since November 14. Shanghai's B index gained 2.693 to 56.114. Page 40

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Boehringer Berlin	27.30	+	2.05
Degussa	663	+	25
Rheinmetall Pf	160	+	4
VEW	464	+	18
Falls			
PWA	195	-	5
Volkswagen	557.0	-	29.5
NEW YORK ($)			
Rises			
Amer Online	30	+	3¼
Apple Magnetic	29½	+	1¼
Centennial Tec	30¼	+	2¾
Digital Equip	39¼	+	2¾
Documentum Inc	24	+	1¾
Falls			
FBL Fin	24¼	-	2¾
LONDON (Pence)			
Rises			
Bent (SR)	64½	+	8
Hay & Robertson	112	+	12½
On Demand Info	47½	+	8
Falls			
Celltech Inns	21½	-	7
High-Point	30½	-	12
Racal Elec	225	-	20
TORONTO (C$)			
Rises			
Clear Films 6	32.00	+	1.75
Draco Energy A	87.0	+	3.5
Skylark	38	+	3
Falls			
Bre-X Minerals	18.10	-	1.55
Catchell Gold	51.75	-	0.25
[illegible]	17.0	-	1.5

PARIS (FFr)			
Rises			
Bancaire Cie	608	+	14
Labinal	933	+	23
Legris	241	+	15
Sommer-Allibert	130.1	+	5.1
Falls			
Fives Lyonnaise	539	-	19
Manitou	118.9	-	4.1
TOKYO (Yen)			
Rises			
Yoshinoya	540	+	40
Falls			
Daiya Corp	932	-	36
Maruju Matl	3700	-	130
Nippon Suda	873	-	44
Mazda Motor	766	-	43
Mitsubis	914	-	41
HONG KONG (HK$)			
Rises			
Amoy Props	11.25	+	0.45
Cosco Group	44.0	+	1.9
Shaw Darby HK	6.55	+	0.45
Falls			
Jardine Intl	10.2	-	0.2
New Asia A	32.2	-	1.1
Shaw Brothers	9.6	-	0.2
BANGKOK (Bht)			
Rises			
Dusit Thani	30.5	+	2.5
Pompipat Fin	27.00	+	2.25
Prada Jewelry	33.25	+	3.00
Univentures	23	+	2
Falls			
Tarat Factory	40.5	-	4.5
Thai Tanaborn	28.25	-	3.00

New York and Toronto prices at 12:30.

Investment fund pays $440m for Supermercados Norte supermarket

Exxel buys Argentine chain

By David Pilling in Buenos Aires

Exxel Group, the international *investment fund, yesterday* paid $440m to buy Supermercados Norte, Argentina's second *largest supermarket chain* by sales.

The purchase, one of the *largest of a private company in* Argentine history, highlights the growing interest of inves*tors in Argentina's expanding* supermarket sector.

Exxel, a leverage buyout *group headed by Mr Juan* Navarro, a former Citibank executive, will within weeks issue corporate bonds to cover part of the cost of the transaction.

Given the buoyancy of the Buenos Aires *stock market* and the apparent investor appetite for Argentine super*market chains, Exxel said it* was also planning a public offering of shares.

Earlier this year, the locally owned supermarket chain Disco went public with a *domestic and international* share offering. Another supermarket group, Importadora y *Exportadora de la Patagonia*, has been among the top performers on the Buenos Aires exchange this year.

Mr Navarro said the group planned to invest $350m to expand Norte over the next *five years. Two thirds of the* expansion would take place in the interior of the country *where supermarkets are less* common than in the capital. Expansion plans would mean *recruiting 8,000 staff.*

Mr Alberto Guil, Norte president and founder, will con*tinue as head of the supermar*ket chain. "The alliance with the Exxel Group will allow us *to expand rapidly and sustain*ably," he said yesterday. Expansion plans would continue to be "aggressive".

Norte, which has annual sales of an estimated $1.2bn in a market worth more than *$7bn, has 25 stores concen*trated in Buenos Aires and its surroundings. Carrefour of *France has the biggest market* share, with $2.1bn in sales, while Jumbo of Chile and local *groups Coto, Disco and Tia are* the other main competitors.

Wal-Mart also entered the *fray last year, setting up four* stores in the capital. It plans to invest $100m to open four *more outlets outside Buenos* Aires.

Supermarkets and self-service stores now account for 63 *per* cent of food sales in Argentina, leaving only 37 per cent for the traditional corner *shops, according to the Nielsen* consultancy. A decade ago, corner shops accounted for 58 *per cent of food sales.*

Exxel, founded by Mr Navarro in 1991, has invested a *total of $980m in 18 Argentine* companies. In the past year it has bought a controlling stake *in Argencard, the licensee for* MasterCard in Argentina and Uruguay, as well as Edesa and *Edelar, the electric utility com*panies of the northern provinces of Salta and La Rioja.

UK fund manager to team up with Safra

By William Hall in Zurich and William Lewis in London

Mr Edmond Safra, one of the world's most secretive bankers, has strengthened his position in the international fund management business by teaming up with Mercury Asset Management, the UK's leading independent fund manager.

MAM is selling its Zurich private bank to Mr Safra's group for SFr250m ($192m) and has been *appointed to manage* a significant pool of assets for Safra clients in the global equity and bond markets.

Safra Republic Holdings, the quoted arm of Mr Safra's European private banking empire, said its main Swiss subsidiary, Republic National Bank of New York (Suisse), had agreed to buy Mercury Bank, a small Zurich private bank which has been owned by MAM since 1990.

It has assets of SFr344m and a net worth of SFr118.2m. RNB Suisse is paying roughly double the book value for a bank that made pre-tax profits of SFr19.6m in its last financial year and has estimated funds under management of about SFr3.7bn. The acquisition will boost RNB Suisse's funds under management to about$25bn.

The acquisition comes less than six months after RNB Suisse paid about SFr200m for *Banque Unigestion, a Geneva* private bank, and is another sign of Mr Safra's intention to *expand his fund management* business – an area where Safra Republic is weaker than *some of its rivals. Mr Safra*, chairman of RNB Suisse, said he was pleased to establish a *"strong business partnership"* with MAM.

Mr Safra, in common with *most private bankers in Swit*zerland, is based in Geneva, and the acquisition of Mercury *Bank* is intended to strengthen RNB Suisse's position in Zurich, where it has been under*represented. The* name Mercury Bank will disappear and the Zurich business will be *folded* into RNB Suisse's new Zurich offices which will open in the New Year.

MAM said the sale of its Swiss private bank reflected its strategy of concentrating *on its core expertise of invest*ment management. "Throughout the sale discussions we *have been anxious to ensure* that the best interests of Mercury Bank's clients are safeguarded," said *Mr Hugh Stev*enson, chairman of MAM. "I firmly believe that this has been achieved."

MAM is thought to be examining the possibility of returning approximately £100m to its shareholders, after the deal, through a buyback of its own shares or through an improved dividend payment. Analysts expect MAM to make a decision early next year, once it has studied the implication of new UK tax rules which have made share buybacks less attractive for some funds.

The Mercury deal takes MAM's cash pile to approximately £250m, of which around £100m is available to return to shareholders. One analyst said: "The company has told us that it is keen to make a fund management acquisition, but I doubt they will find anything at the price they want to pay."

MAM will maintain a representative office in Zurich through which it markets its *Swiss-registered mutual funds*. MAM expects to make an profit of SFR57m on the sale.

Richemont's managing director Johann Rupert said diluting its interest in pay-TV did not reflect lost enthusiasm for the industry

Tobacco boosts Richemont profits

By William Hall in Zurich

Richemont, the Swiss-based owner of the Rothmans tobacco and Vendome luxury goods businesses, increased its first-half operating profits by 21 per cent to £453.5m ($757m) after a strong performance by the group's tobacco business.

Rothmans International, the vehicle for Richemont's tobacco interests and its biggest part, reported a 52 per cent rise in operating profits to £401.1m.

However, after adjusting the *figures for the merger of Roth*mans International with the tobacco businesses of the Rem*brandt Group last January*, there was a 12.3 per cent rise in underlying tobacco profits.

*The steady growth in Riche*mont's tobacco business contrasts with a marginally lower *contribution of £110.4m from* the Vendome luxury goods business, which reported its results last week. In addition, the operating losses on the group's media interests rose by £20.1m to £35m and NAR Group, Richemont's direct marketing operation, also reported higher losses.

The latest half-year figures are complicated by the change in the structure of the company following the enlargement of the group's tobacco business and the heavy losses on the media operations which are in a start-up phase.

In the last year and a half Richemont has paid £1.6bn to buy out the *minority* of Rothmans International and then merged its tobacco interests *with the South African* tobacco interests of the family-controlled Rembrandt Group.

Richemont owns two-thirds of the enlarged group but the cost of buying out the minority *of Rothmans International has* led to a jump in net borrowings from £240.1m to £698.6m and, instead of net interest income of £21.1m last year, the group had a net investment expense of £12.7m in the latest half year.

The share of profit attributable to minority interests, after adjusting for the changes, rose by 52.7 per cent to £147.4m. As a result net attributable earnings fell 6 per cent to £143.3m and earnings per share fell a similar amount to £24.96.

Richemont shares gained SFr30 to SFr1,955 yesterday. Some analysts believe that the company is trading at a discount of as much as 15 per cent to net asset value.

In September, Richemont and its partner in NetHold, a pay-TV company, agreed to merge NetHold's loss-making European operations with those of France's profitable Canal Plus, creating one of the world's largest pay-TV networks with 8.5m subscribers.

Mr Johann Rupert, Richemont's managing director, said yesterday that the dilution of its interest in the pay-TV business did not reflect any loss of enthusiasm for the industry.

Rembrandt profits, Page 20

Danone to control frozen food group in $550m deal

By David Buchan in Paris

Danone, the French foods group, is to pay FFr2.9bn ($550m) to Saint Louis, the *sugar and paper group, for the* 34.5 per cent of the Panzalim prepared foods company which *it did not already own.*

Danone said total control of Panzalim, which makes pasta and ready-to-serve dishes, would consolidate its position in this "fast-moving" area of frozen foods where sales have risen 5 per cent this year in France.

It forecast Panzalim would generate a "cash surplus" of FFr800m on sales of FFr8.4bn this year.

Danone, whose main speciality is in fresh foods and dairy products, has used Panzalim to spearhead its entry into the *highly fragmented ready-to*-serve sector in France.

Panzalim has seen its chilled ready-to-serve dishes, under the "Marie" trademark, grow by 16 per cent this year, while it has also developed a variety of canned specialities of French, Italian and other ethnic dishes.

Saint Louis has long signalled its desire to get out of Panzalim, a joint venture which its late chairman, Mr *Bernard Dumon, helped create* a few months before his death in an air crash in early 1995.

Under its new head, Mr Daniel Melin, Saint Louis had indi*cated that while it wanted to* continue in foodstuffs, such as sugar, as well as its 40 per cent in the *Arjo* Wiggins Appleton paper business, it wished to get out of mass marketing of food.

At the time that Danone's Panzani division was merged with Saint Louis's Euralim to form Panzalim in 1994, Saint Louis acquired a "put" to sell to Danone its one-third stake in the joint venture.

Saint Louis has had the right to exercise the "put" at a minimum price of FFr2.6bn since last March, but has evidently used the last six months to negotiate a better price with Danone.

In a similar move, Saint Louis sold its loss-making *mushroom division, Royal* Champignon, to Champi-Jandou in September.

The sale of these assets will help Saint Louis fund the acquisition by its Générale Sucrière subsidiary of several sugar refineries, as part of a general share-out of the Compagnie Française de Sucrerie, sold earlier this year by *Compagnie de Navigation* Mixte.

Other parts of this sugar *business* were bought by Eridania Béghin-Say and several agricultural co-operatives.

Swedish minister attacks bank over merger

By Hugh Carnegy in Stockholm

Mr Erik Asbrink, Sweden's *finance minister, yesterday* renewed his attack on the board of Stadshypotek, the *mortgage bank, for agreeing* a merger proposal from the insurer Skandia.

His comments came as the deadline passed for bids in an auction of the state's 34 per *cent share in Stadshypotek.*

"It is more about rigging the business in the interest of a minority of people in the prospective management who are organising jobs for themselves," Mr Asbrink said of Stadshypotek's acceptance of the Skandia deal, announced last week without his prior approval.

His remarks added further acrimony to the most controversial takeover attempt in Sweden since Volvo bowed to shareholder and management pressure three years ago and scrapped a planned merger with France's Renault.

Skandia, Sweden's biggest insurance group, effectively sought to pre-empt the government's plans to auction its stake in Stadshypotek by winning the mortgage bank's agreement to merge. The deal would create the Nordic region's biggest financial services group with assets of *SKr500bn ($75.5bn) and a mar*ket value of SKr45bn.

But Mr Asbrink was furious. He declared he had no confidence in the Stadshypotek board and said the government would go ahead with the auction of its share – currently carrying a market value of about SKr8bn. The auction is being conducted by Merrill Lynch, the US investment bank.

The finance ministry said "a handful" of bids had been made by Swedish and foreign institutions by the deadline yesterday for preliminary offers. Mr Asbrink said: "Our primary goal is to get the best price possible and it is impossible to know if we will get that from Skandia before we have seen all the bids."

Until the Skandia move, Sweden's big banks were seen as the likeliest candidates to swallow Stadshypotek. It was not clear yesterday which of *them, if any, had proceeded* with a bid.

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Santander fails to back second telecoms group

By Tom Burns in Madrid

Banco Santander yesterday dealt a psychological blow to the start-up of Spain's second telephone operator. Spain's biggest banking group had been widely expected to back the second fixed-line company, but yesterday it revealed it had acquired shares in Telefónica, the existing telecoms group.

The Madrid government is anxious to have domestic capital behind the second operator, which will begin to provide a rival telephone service to Telefónica next year. It had planned to have Santander, together with Banco Central Hispano (BCH), as the main financial partners of Retevisión, the state-owned TV signals transmitter.

The investment switch by Santander means that British Telecommunications, the bank's partner in Spain in a data transmission business, is unlikely to be part of a consortium to bid for Retevisión when the state sells its stake in the company. That disposal is scheduled for after the privatisation of Telefónica.

Endesa, the state-controlled electricity generator, is expected to join BCH in a consortium to bid for Retevisión. Analysts expect the front-running technological parter to be Global One, the alliance of France Télécom, Deutsche Telekom and Sprint, the US operator.

Retevisión's assets are worth Pta64bn ($494m), a sum which pales against Telefónica's current market value of Pta2,600bn. The government, advised by Lehman Brothers, plans to invite bids for between 60 per cent and 80 per cent of the company in March next year. In 1998, the government intends to liberalise the telecoms sector to comply with the EU's open market directives.

Santander denied market rumours that it had invested about Pta100bn in Telefónica through market purchases over the past two months. Such an investment would have bought Santander some 3 per cent of the telecoms group at present market prices, and placed it alongside rival domestic banks Bilbao Vizcaya, Argentaria and La Caixa, the Barcelona-based savings bank, as a core shareholder in the dominant telecoms group.

"We have been buying Telefónica shares modestly and we have no interest in being a core investor because that is not a concept we like," Santander said.

The policy of taking only a trading position when buying equity, and of shying away from stable investments in industrial assets lies behind Santander's decision to walk away from backing the second telecoms operator. The bank said it had "gone somewhat cold" on Retevisión.

Former ISL executives set up rival company

By Jimmy Burns

Three former senior executives of the Lucerne-based ISL, one of the world's leading sports marketing groups, have set up a new company in direct competition with their former employers.

The company, Prisma Sports and Media, will have headquarters in Zug, Switzerland, and offices in London. It has been formed by Mr Peter Sprogis, Mr Stephen Dixon, and Mr Tom Hipkins, who were key figures earlier this year in ISL's successful SFr2.8bn ($2.15bn) bid with the German media group Kirch for television rights outside the US to the 2002 and 2006 World Cups.

The new company has yet to announce details of its plans and structure. However, Mr Sprogis, the new company's managing director responsible for TV rights, indicated his determination to play an aggressive role in the increasingly competitive sports-business environment.

"Although we have no alliances with any major broadcaster at the moment, we hope to form many as our company evolves. Anyone who is big in sport broadcasting is a potential partner," said Mr Sprogis.

He denied speculation that Prisma was already involved in separate negotiations with Kirch and Mr Rupert Murdoch's News Corporation. But he said his company would aim to win TV-led broadcasting and marketing packages similar to those he had helped secure with Fifa, world football's governing body responsible for the staging of the World Cup.

"There are only two things that drive major broadcasters these days – football and movies. Sponsor-driven deals in sport belong to the past," Mr Sprogis said.

The three former executives formally confirmed their resignation last Thursday, citing "major philosophical differences" with ISL's board of management and the company's business direction.

The resignations followed a period of internal management crisis caused by the loss at the beginning of the year of ISL's lucrative account with the International Olympic Committee. The loss was blamed by some senior executives on the business strategy pursued by the ISL management board.

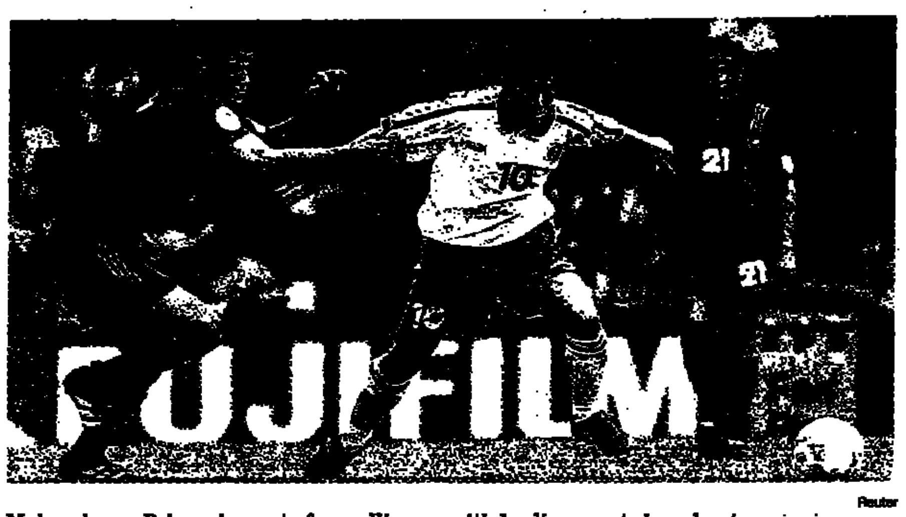
The dispute deepened this summer, when the company's board confirmed the appointment of Mr Glen Kirton, head organiser of the Euro 96 football championship, as vice-president responsible for ISL's football department.

Some senior executives complained that Mr Kirton's appointment formed part of a new corporate and management structure which had involved inadequate consultation. Mr Kirton was due to take up his new appointment yesterday and will be in charge of ISL's marketing contract for the World Cup in France in 1998.

Mr Keith Cooper, a spokesman for Fifa, ISL's main client, said at the weekend that Prisma had to prove it was a "realistic alternative" for future contracts.

"Fifa's existing contract is with ISL, not with the individuals who negotiated it and who have now left the company," Mr Cooper said.

ISL last week said it had created a new corporate and management structure to "optimally manage its growing TV, media, and marketing rights business".



Major player: Prisma hopes to form alliances with leading sports broadcasters Reuter

Disposals and weak rand bolster Rembrandt results

By Mark Ashurst in Johannesburg

The weaker rand helped Rembrandt, the South African tobacco, mining and industrial group, to a sharp improvement at the halfway stage.

Income from tobacco interests was 37 per cent higher for the six months to September 30, at R492m ($106.8m), following the exchange of South African tobacco interests for a one-third stake in Luxembourg-based Rothmans International Holdings last year.

Earnings per share rose 50 per cent from 129 cents to 193 cents, buoyed by an exceptional R125m gain on the disposal of financial investments and the sale of hardwood timber interests by subsidiary HL&H. Earnings for the previous period, when restated on a comparable basis, were 175 cents a share before exceptional items. The interim dividend rose from 24.5 cents to 29 cents.

Analysts said the results were at the upper end of expectations. The shares closed virtually unchanged at R41.30, a discount of about 16 per cent to the group's net asset value. Mr Rey Wium, analyst at BoE NatWest in Johannesburg, said the discount, which had narrowed from 24 per cent a month ago, was commendable.

Rembrandt is 51 per cent-owned by an investment company controlled by its founders, the Rupert family. The improvement reflected the benefits of restructuring the tobacco interests, which would favour Rembrandt over its international arm, Richemont, in the short term.

Sales of South African tobacco products made up about 26 per cent of turnover at Rothmans International Holdings, but contributed a third of Rembrandt's rand-denominated earnings. This imbalance was likely to remain until the rand stabilised, said Mr Wium.

The average value of the rand against sterling was R6.84 during the six months. It had fallen to R7.10 by the end of the period, and is currently trading at about R7.66.

Turnover, which was not comparable, fell from R4.6bn to R2.9bn. Tobacco interests contributed 54 per cent of net income, while a strong performance at Gencor lifted income from mining interests from R133m to R177m, or 19 per cent of the total. Industrial interests contributed R50m, or 5.5 per cent, from 7 per cent previously.

EUROPEAN NEWS DIGEST

Telekom greenshoe exercised in full

The size of the Deutsche Telekom share issue, Germany's biggest, was increased yesterday as the over-allotment facility to meet extra demand and smooth out price fluctuations was exercised in full. The three global co-ordinators – Deutsche Bank, Dresdner Bank and Goldman Sachs – allocated a further 90m shares, bringing the total sold to 690m. Including 23m shares taken up by employees, the issue has raised DM20bn ($13bn).

The initial share price was fixed at DM28.50 two weeks ago. Yesterday, the shares closed at DM33.18, down 27 pfennigs. Banking sources said the decision to exercise the greenshoe well before the end-year expiry date showed demand was still buoyant. The 90m shares will go to institutions. *Andrew Fisher, Frankfurt*

RWE eyes E-Plus stake

RWE, the German energy and telecommunications group, is willing to pay between DM2.5bn and DM3bn ($1.63bn-$1.95bn) for Thyssen's 30 per cent stake in E-Plus, Germany's third-largest mobile telecommunications network. Sources close to RWE said yesterday the two companies had started top-level talks, and no announcement was to be expected for some time.

However, Thyssen yesterday said: "We have no offer and we are not selling," and industry analysts are sceptical about RWE's chances of clinching Thyssen's stake. *Wolfgang Münchau, Frankfurt*

ABB, Volvo in joint venture

ABB, the Swiss-Swedish industrial group, has signed a preliminary agreement to form a joint venture company with Volvo, the Swedish carmaker, to supply automation equipment for automotive body assembly shops and press lines. The new company would include Volvo businesses for assembly-line engineering, press automation and lightweight welding guns. It would also include Volvo unit Olofstroem Automation's operations in Toronto, Detroit, and São Paulo. *AFX News, Zurich*

R-P plans Aids vaccine test

Pasteur Mérieux Connaught, the vaccines arm of France's Rhône-Poulenc, the French chemicals conglomerate, expects to move into Phase III efficacy trials for a vaccine against Aids before the end of the century. The company, which is devoting 20 per cent of its research budget to Aids, said it aimed to produce several candidate vaccines to be tested in trials starting in 1998. It said its strategy was based on the combined use of a number of immunogens. Professor Alf Lindberg, vice-president of research, said people would "most probably" need to take several doses of the eventual vaccine. *David Owen, Paris*

Koor agrochemicals purchase

Makhteshim and Agan, the world's leading producer of generic agrochemicals and part of Koor, Israel's industrial holding group, yesterday paid $19.8m for a 83 per cent stake in Defenpar Participacoes, manufacturer of crop protection chemicals. The acquisition was part of Koor's strategy of tapping into expanding markets in Latin America. *Judy Dempsey, Jerusalem*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Fresenius finds prescription for long-term health

German medical products group's US acquisition this year has made it world leader in kidney dialysis services

Gerd Krick is sitting on two of the hottest jobs in European industry. First, he is chairman of Fresenius, the German health products business that in the past five years has been one of the continent's fastest expanding companies.

Second, he heads up Fresenius subsidiary Fresenius Medical Care, the world's largest supplier of kidney dialysis services. His job is to knit the operations on both sides of the Atlantic to form a vertically integrated group providing dialysis equipment and services.

Fresenius's growth has been phenomenal. Since 1992, net income has more than trebled, while its share price has increased from around DM35 to DM305 yesterday – outperforming the DAX stock market index by 323 per cent.

Earlier this year, it took a giant leap when it paid \$2.3bn for a majority stake in National Medical Care, a US kidney dialysis company formerly owned by W. R. Grace, the US speciality chemicals group.

Together with Fresenius's existing dialysis operations, the acquisition makes Fresenius Medical Care the international leader in this field with some 600 treatment centres taking care of more than 50,000 patients. Fresenius's other operations include pharmaceuticals, intensive care and hospital projects.

From the beginning of October, Fresenius Medical Care has operated as a stand-alone business, with the parent company owning 50.3 per cent and the rest of the shares traded on the New York and Frankfurt stock exchanges.

Fresenius's earnings record – its net income rose from DM24.1m in 1992 to DM91.2m (\$59.3m) in 1995 – has given it a queue of admirers.

"From what they've done over the past five years, and where we expect them to be in five years' time, Fresenius is one of the most promising growth stocks in Europe," says Mr Alex Magona, a German specialist at the London office of Robert Fleming, the UK merchant bank.

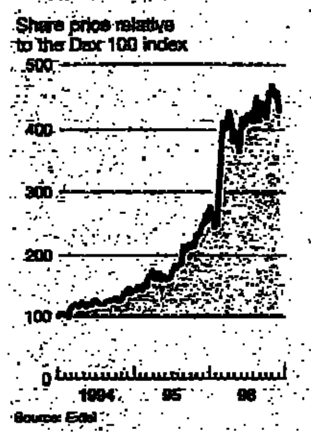
One of the reasons it may prove able to sustain such growth is its internationalisation.

Consolidated annual sales of Fresenius – including the new acquisition – came to DM5.1bn last year on a pro-forma basis. Of this total, just 17 per cent came from Germany, with nearly two-thirds of the revenues from the US – mostly from the dialysis operations from the W. R. Grace purchase. Prior to the US acquisition, Fresenius's annual sales stood at DM2.2bn, a figure which had shown steady growth since the DM1.2bn registered in 1991.

Mr Krick, a mechanical engineer who has worked for Fresenius since 1975 and who has been chairman since 1992, plans to keep expanding by developing the kidney dialysis operations. These account for roughly four-fifths of Fresenius's total revenues.

Dashing for growth

Share price relative to the Dax 100 index



Source: Extel

	1995	1996*	1997*	1998*
Pre-tax earnings, DMm	162.5	253.5	637.8	855.5
Tax rate, %	43.9	40.8	45.9	44.7
Net profit, DMm	91.2	150.0	344.9	472.8
EPS DVFA, DM	5.2	7.6	12.6	16.2
Cashflow/share, DM	13.2	20.3	38.7	45.5
Dividend (ord/pref), DM	1.5/1.6	2.2/2.3	3.2/3.3	4.3/4.4
P/E**	18.8	[illegible]	21.4	18.7
Div. yield** %	1.5	0.8	1.2	1.6
Rel. div. yield** %	39.5	38.5	53.8	61.6

Source: Kleinwort Benson *Estimates, ** Preference shares

Gerd Krick, chairman

His target for this business is to expand sales by 15 per cent a year in the near term, both through opening new treatment centres, particularly in Europe and east Asia, and "maximising the efficiency" of existing ones.

That market is growing fast: the number of people worldwide who receive kidney dialysis treatment – now put at 700,000 – is growing by about 9 per cent a year. This is attributed to a mixture of better diagnostic methods and the tendency for people with kidney disorders to live longer because of improved healthcare standards, particularly in the developing world.

Publicly-run dialysis centres – which treat people with renal disorders up to three times a week to clear waste matter from their bodies that would normally be done by the kidneys – will, Mr Krick thinks, gradually give way to private operations such as the ones offered by his company.

"This is what we have seen in the US, and I think it is safe to assume the same trend will be apparent elsewhere," he says.

Of Fresenius Medical Care's revenues, roughly 40 per cent comes from sales of products such as special pharmaceuticals and disposable dialysis devices (or "filters") and other accessories that are an essential part of the dialysis treatment. The rest is from the "service" aspects of the operations.

Mr Krick reckons the company is in a good position to achieve good profits growth through integrating the product side of the business – which includes the development of new or improved dialysis machinery – with the service side.

"This integrated approach means we can take all the margins between the 'product' and the 'provider' ends of the business, which will make us unbeatable," says Mr Krick.

The second big part of Mr Krick's strategy is to continue with the Fresenius culture – which applies to other parts of the business as well as dialysis care – based around "leveraging" German technology into the company's international operations and keeping individual business units small and tightly managed.

On the first point, of the company's total 35,000 employees, only 4,100 are in Germany where they are mainly involved with technical, research and marketing jobs. Most of the service and production functions devolved to the company's treatment centres and its 33 worldwide plants, which are spread across the globe.

"Ninety per cent of the developments [for future business applications] will come from Germany. This will continue to be the technical centre for the group," says Mr Krick.

Because of Germany's high wage costs, it will be increasingly uneconomic for Germany to focus on production, while concentrating on technology "is the one way to keep business in Germany alive", Mr Krick says.

A key part of Fresenius's growth record has been "small company" approach, says Mr Krick.

"In the old Fresenius [prior to the National Medical Care acquisition] we split the company into 17 business units with between 100 and 500 people in each one. In the enlarged group we will be keeping the same philosophy."

Part of this strategy rests on a creed which Mr Krick calls "nothing is free". The different business units all buy and sell from each other goods and services according to carefully worked-out contracts.

For instance, the company's 10-strong legal department, based at the Fresenius headquarters near Frankfurt, only works for specific divisions on legal matters if it is approached with a definite proposal setting out how much the division is going to pay. The same goes for the electronic data processing department.

Mr Krick thinks this way of working keeps staff on their toes and more focused on their jobs within the company.

"To do things this way you are all the time thinking about the costs and whether what you are doing is necessary," he says.

Peter Marsh

Discussions on French bank stake suspended

By Andrew Jack in Paris

Discussions over the sale of control by the Paribas group of Crédit du Nord, the retail banking network, have been suspended, it emerged yesterday.

Banques Populaires, the mutualist French banking network, had been holding talks over recent months to buy Crédit du Nord from Paribas, the financial group. Paribas also controls Banque Paribas, the merchant bank, Compagnie Bancaire, the specialist bank, and Paribas Affaires Industrielles, a portfolio of investments.

The talks were expected to lead to the sale of a 51 per cent stake in Crédit du Nord, with Banques Populaires recapitalising the bank and maintaining the option of increasing its holding over the next few years.

However, the talks are believed to have stalled in the past few days, at least in part over the question of the price Banques Populaires was willing to pay.

Paribas yesterday "denied categorically" reports that it had signed an agreement in principle to sell Crédit du Nord.

In November last year, Paribas replaced Mr Bernard Auberger as chairman of Crédit du Nord, creating instead a two-tier board structure.

Steady profits growth lifts Degussa shares

By Wolfgang Münchau in Frankfurt

Degussa, the German chemical and metals group, yesterday surprised the market with an upbeat earnings statement and forecasts of a substantial increase in sales in its European business.

Degussa's shares yesterday rose by 3.9 per cent to close at DM663 in Frankfurt.

For the year to end-September, Degussa recorded a 2 per cent increase in pre-tax profits from DM404m to DM413m (\$269m). Earnings per share rose DM1 to DM39, an increase of 3 per cent.

The company achieved sales of DM13.8bn, down 1 per cent from the previous financial year. The sales were affected by a weak first-quarter performance.

Degussa said it recorded markedly different regional performances, with strong growth in North and South America, weak growth in Europe and falling sales in Germany. The pattern is typical for the industry in a year in Germany was hit by a recession.

Like other German chemical and pharmaceutical groups, Degussa is now predicting an upturn in domestic and European business. The company said yesterday: "The new financial year has got off to a good start. Sales have increased and earnings have improved. We reckon the noticeable upturn of recent months, particularly in Europe, will continue."

Yesterday's rise in the share price underlines an improvement in market perceptions of Degussa shares after the appointment of Mr Uwe-Ernst Bufe as chairman in March this year.

Mr Bufe has forged a new strategy based around three business divisions – chemicals, healthcare and precious metals/banking – and 11 operating divisions.

Mr Patrick Shields, analyst at UBS in London, said: "The market currently has an appetite for stories of focused restructurings. It was immediately clear when the new management came in it spoke a different language than the previous incumbents."

The company aims to achieve an even balance between the three business segments, which entails an expansion of the pharmaceuticals side. It said yesterday the \$350m acquisition of Muro Pharmaceutical, based near Boston, would be completed in January.

Red Earth looks to green, pleasant land

Not the Body Shop: Red Earth aimed at older, bigger-spending customers, says founder

Mention the Body Shop, the highly-successful "natural products" retailer, to Mr Nick Chadwick, and a slight weariness creeps into his voice.

Comparisons have been drawn so often between the British-owned group and his smaller chain of Red Earth stores – which span much of Asia and Australia, and will soon arrive in the UK – that he can explain the difference without pause for thought.

"What happened in the early 1980s was that there were a rash of [Body Shop] copycats," he says, "but basically the customer wanted it . . . all those yummy natural products." Since then, he argues, consumers have become more sophisticated, and increasingly capable of discriminating between environmental hype and genuine natural ingredient claims.

So, while the Red Earth founder admits that Body Shop's success in marketing "natural products" provided a general inspiration, he also says that the Melbourne-based chain – which opened its first store five years ago – started out with a slightly different customer in view.

For a start, Red Earth tends to pitch to older shoppers, typically in the 18 to 35-year-old age bracket. Second, it expects them to spend more: "Our products are always dearer than Body Shop, even in Australia."

The stores' sleeker image is a further conscious effort at differentiation. Red Earth outlets, claims Mr Chadwick, are probably "a little bit austere" for the average Body Shop customer.

This may be shrewd marketing talk, given that Body Shop has been pursuing higher-spending customers recently. Still, UK consumers will get their chance to put these nuances to the test soon. Red Earth, which has more than 80 outlets in Australia and more than 70 internationally, is negotiating a deal with Kingfisher's Superdrug to launch concessions in the UK. An announcement is expected in the next few weeks.

Superdrug is the UK's second-largest health and beauty chain, with 703 high street stores. However, in the early 1990s the group began to lose momentum as supermarkets began attacking the health and beauty market and consumers moved away from the discount format. In 1994, the group reported its lowest profits in four years.

But Superdrug is trying to regain its position with a shift upmarket. Red Earth forms part of that strategic move.

If the UK venture proves successful, it will top a fairly frantic five years for Mr Chadwick. The 37-year-old businessman – who was born in Nottingham in the UK, before his parents emigrated to Australia – began his retail career with one cosmetics shop in Melbourne's St Kilda in the late-1980s.

As the idea of making and selling natural products took hold, Mr Chadwick teamed up with Mr Steven Koh, a young Malaysian investor. In 1991, they opened the first Red Earth store in a new shopping development in Melbourne's city centre.

The move into Asia happened within two years. According to Mr Chadwick, it was spurred by approaches from people interested in taking the Red Earth idea overseas. "It was a supply and demand issue – Body Shop was dominant and not everyone could get franchises," he says.

So, recognising a need to be "pro-active rather than reactive", he found a second partner in the form of Mr Michael Ying, the Hong Kong-based owner of the Esprit fashion chain.

In contrast to Body Shop's franchise model, Red Earth's international strategy was always based on licence agreements, each covering an entire country and drawn up with one joint venture partner. Typically, these lay out sales criteria, performance expectations, store opening plans and so on. Retail pricing remains a "collaborative" effort, but Red Earth makes its money on the supply of products.

Hong Kong was the first such arrangement, struck with Mr Ying, but Red Earth has since done deals covering most of the Asia region.

Like most young companies, Red Earth has felt its way. Mr Chadwick admits that some product sourcing needs to change to ensure quality. Today, only 50-60 per cent comes from Australia. As a private company, Red Earth is not obliged to disclose profits. However, annual turnover is put at about A$80m (US$65m), with half coming from outside Australia.

In spite of the heady expansion, Mr Chadwick says Red Earth is still very much "in distribution mode". The next step, he says, will be to rebase personally from Hong Kong to London, and then look at means of tackling the continental European market.

On the way, there will probably be some form of capital-raising. This might mean a float of the Australian company or of the international business, which is a separate entity – or a private placement. SBC Warburg, says Mr Chadwick, is now doing the homework.

Nikki Tait

Macquarie Bank ahead at halfway

By Nikki Tait in Sydney

Macquarie Bank, the Australian investment bank, has announced an interim after-tax profit of A$46m (US$37.5m), compared with A$37.9m a year earlier.

The results follow the sale last week by the UK's Hill Samuel of its stake in the bank, to Brunei Investment Agency. Mr David Clarke, chairman, said the profits increase had come from across the bank's range of activities.

He said it was still "extremely busy", and was optimistic about prospects for the current half. However, he noted that the second half of 1995-96 – when the bank made a profit of A$55.2m after tax – had been particularly strong and would be "hard to beat".

Macquarie's net interest income for the six months to the end of September was slightly lower, at A$39.9m against A$42.2m, while trading income rose from A$37m to A$43.4m. The most marked change came in fee and commission income, which rose from A$110.9m to A$149.4m in the first half of 1995-96. As a result, total operating income rose from A$190.2m to A$232.7m.

Mr Allan Moss, managing director, attributed the surge in commission income partly to continued growth in assets under management, which reached A$19.8bn at the end of September, from A$17.8m at the end of March, and to strong results from the equities division, helped by buoyant and busy stock market conditions.

Macquarie's stockbroking arm saw a near-400 per cent increase in profits compared with the first half of 1995-96. The underwriting unit also had "a very active half-year". Overall, the equities division's share of total operating profit rose to 17 per cent from 9 per cent a year before, while investment services nudged up from 8 per cent to 10 per cent.

Elsewhere, the treasury and commodities division had its best first half since it was formed in 1993, with all seven sub-divisions operating in the black. However, the bank warned that there was "intense" competition across all areas and low turnover in many. Overall, the treasury and commodities arm accounted for about 27 per cent of profits, up from 25 per cent previously.

By contrast, corporate banking saw a dip in first-half earnings, although the bank said transaction flows remained strong. Its relative profits contribution slipped to 15 per cent from 25 per cent.

On the cost side, total operating expenses were up from A$151m to A$176.5m. This rise was driven mainly by higher employment expenses, which rose to A$107.2m. Macquarie made no apology for the 18 per cent increase, saying it believed employment-related costs would continue to grow as "global competition for high-calibre staff increases".

Earnings per share in the six months were 30 cents, up from 25.4 cents in the first half of 1995-96. The return on shareholders' funds was 20.7 per cent, while the capital adequacy ratio stood at 13.6 per cent.

French bank upbeat

The Asian operations of Crédit Lyonnais are set to record net profits in the region of US$150m this year, a rise of about 30 per cent, according to Mr Jean Peyrelevade, chairman of the French state-owned bank, writes **John Ridding** in Hong Kong.

Speaking in Hong Kong yesterday, Mr Peyrelevade said the Asia-Pacific operations of the bank should continue to provide steady increases in profits over the next few years. He also expressed confidence in Hong Kong's prospects after its return to Chinese sovereignty next year. "I am certain it will remain an important financial centre," he said.

Crédit Lyonnais has been building its investment banking and commercial banking operations in the region, expanding into derivatives and fixed-income products, mainly in local currencies. Mr Peyrelevade described as "stable" the shareholding structure of Crédit Lyonnais Securities Asia, the Hong Kong-based investment banking arm in which the French group holds a 65 per cent stake.

US banks poised for fresh consolidation

Recent trends in share prices have created the conditions for a renewal of merger activity

US commercial banks are ready for another bruising wave of consolidations, say Wall Street analysts.

Speculation was reawakened by last week's \$1.9bn acquisition by ABN Amro of Standard Federal, a Michigan-based thrift bank with a base in Chicago. It was the largest acquisition in the sector for three months.

News that Mr Eugene Ludwig, the comptroller of the currency, will make it easier for banks to diversify into non-banking activities through arm's-length subsidiaries has also stoked interest in banking mergers.

A bullish report this week from Salomon Brothers lists potential acquisition targets. The most likely are large regional banks such as Pittsburgh-based Mellon, with \$44bn in assets, and Cleveland-based KeyCorp with \$65.4bn.

This year has seen a fall in banking merger activity after last year's plethora of huge deals led by the merger of Chase Manhattan and Chemical Banking. Other big deals were North Carolina-based First Union's purchase of First Fidelity, the biggest bank in New Jersey, the merger of First Bank of Chicago and National Bank of Detroit, and the takeover of BayBanks by Bank of Boston.

This year's biggest deal, which took investment houses by surprise, was the \$9.5bn acquisition of Boatmen's Bancshares of St Louis, Missouri, by NationsBank, the North Carolina bank with a reputation as a consolidator. This followed Wells Fargo's successful hostile bid at the beginning of the year for First Interstate, another Californian bank. Otherwise, deals this year have involved thrifts, or have been defensive mergers between banks in the same state.

But Salomon Brothers' US banking team, led by Mr Michael Plodwick, suggests activity has slowed this year because many recent acquirers have been in a "digestive phase".

It points out that recent share price trends have improved the environment for potential buyers, with shares in the large-capitalisation regional banks, viewed as the most likely acquirers, out-performing those of small and medium-sized banks.

In 1996, banks' stocks have performed well, Salomon Brothers' 50-bank index gaining 30.9 per cent, well ahead of the gain by the market as a whole. But this conceals a gain of 33 per cent by banks valued at \$12.5bn or more, while those capitalised at \$3bn or less have gained only 15 per cent. This means that the large "super-regionals" are now trading at a multiple of only 12 times 1997 earnings, a modest discount to the 12.9 ratio for smaller banks.

A year ago, shares of smaller banks had been bid up to more than twice their book value as a result of bid speculation, while the larger banks were lagging because of worries that acquisitions would hurt their earnings.

Salomon also points out that it is difficult for banks to raise earnings in the present environment without acquisitions, as demand for loans has slowed and many banks face dilemmas over whether to make costly new investments in technology to improve their distribution systems.

Its 163-page study looks at 42 potential acquisition candidates, and assesses the rationale and likely takeover prices for 325 different potential merger combinations. Apart from Mellon and KeyCorp, other banks to emerge from the Salomon study with "attractive upside potential" include Summit, a \$22bn asset bank based in New Jersey; Huntington, a \$20bn asset Ohio bank with a large car finance subsidiary and a branch network in six states, including Florida; and First American, which is based in Tennessee.

Other names mentioned on Wall Street include First Chicago NBD, the product of a defensive merger last year, which has a relatively low market rating given its position as the leading bank in the Chicago area.

Barnett Banks, which has the largest market share in Florida, is also widely regarded as a "trophy" bank by potential acquirers, although any bidder would probably have to pay a prohibitively high price for it.

Salomon's list of potential bidders includes the largest regional players to have sat out last year's big deals, including BankAmerica, Ohio-based Banc One, and Minnesota's Norwest. It also mentions a number of others which could continue this year's trend for smaller banks to make acquisitions.

Mr Michael Mayo, banking analyst at Lehman Brothers, also sees continued consolidation. He points out that the market share of the top five banks in each of the nine census regions of the US is only 35 per cent, leaving room for extensive further consolidation without troubling US competition authorities.

Furthermore, he says, the next few years should see banks aiming to build "national franchises", a task which will become easier with the final relaxation of controls on interstate banking in July. Bidders are prepared to pay for banks with strong networks in prosperous areas of the country.

According to Mr Mayo: "There's no doubt that over the next three to five years we will see a degree of consolidation in the US banking industry exceeding that seen in 1995. Many big banks are getting themselves into fighting condition after their last deal – like NationsBank did earlier this year – and there's plenty more to come."

John Authers

Top bank mergers and acquisitions 1996

Buyer	Seller	Value \$m	Date
Wells Fargo	First Interstate	14,044	Jan 1996
NationsBank	Boatmen's Bancshares	8,700	Aug 1996
First Nationwide	California Federal	1,200	Jul 1996
Washington Mutual	American Savings	1,200	Jul 1996
Fleet Financial	Fleet Banking	950	Jan 1996
Southern National	United Carolina Bancshares	935	Nov 1996
Union Planters	Leader Financial	605	Mar 1996
First Union	Center Financial	385	Jun 1996
First Union	Home Financial	341	Jun 1996
US Bancorp	California Bancshares	327	Feb 1996
NationsBank	TAC Bancshares	280	Apr 1996
Firstar	American Bancorp	210	Jan 1996
Hibernia	C M Bank Holding	202	Apr 1996

Source: Companies

Asian Bank, PDCP merge

By Edward Luce and Justin Marozzi in Manila

The Philippine stock exchange yesterday confirmed the second merger in the domestic banking sector since it was opened to foreign competition last year. The merger, between Asian Bank and PDCP, creates the 17th largest bank in the Philippines with assets of 28bn pesos (\$1.06bn).

With 44 and 76 branches respectively, Asian Bank and PDCP bank would have one of the largest branch networks in the country, analysts said.

The shares of PDCP, which is 35 per cent owned by Metro Pacific, the local arm of Hong Kong-based First Pacific and one of the largest property companies in the Philippines, rose 36 per cent last week on rumours of the merger. PDCP's shares closed slightly down yesterday at 28.50 pesos.

Asian Bank, which is unlisted, is expected to benefit from PDCP's strength in personal banking and its slot on the local stock exchange. PDCP will gain from Asian Bank's expertise in the corporate banking sector. The banks will formally merge in the first quarter of 1997.

"This is not the first and by no means the last of a number of mergers in the Philippine banking sector," said Mr Michael Johnson, a banking analyst at All Asia Capital, in Manila. "We expect there will be a lot more consolidation as foreign competition hots up and as domestic capital requirements are raised to strengthen the local banking industry."

Analysts said it was no coincidence that the merger was informally announced last week on the day that the central bank decided to raise minimum capital requirements for commercial banks. The decision, which increased minimum requirements for commercial banks by more than 30 per cent to 2bn pesos and for universal banks to 4.5bn pesos, is expected to encourage smaller banks to consolidate.

"There are a lot of market rumours at the moment about other possible mergers," said Mr William Daniel, head of the BZW office in Manila. "Some of the smaller banks are going to need to boost their capital base to meet the new competition."

Interim loss at Lane Crawford

By Louise Lucas in Hong Kong

The cost of Lane Crawford's foray into Singapore was revealed yesterday when the Hong Kong department store group announced a net loss of HK\$90.8m (US\$11.74m) for the six months to September 30, after a profit of HK\$26.4m for the same period last year.

Lane Crawford, which is controlled by Wheelock, shut down its loss-making Singapore store in September. The move cost HK\$57.4m, while the closure of the store's Express outlets in Hong Kong resulted in an exceptional loss of HK\$12.6m.

Lane Crawford blamed the closures on weak retail markets, especially in Hong Kong, but analysts think this is only one factor. "I think their strategy was absolutely wrong, although it was made by a different management," one Hong Kong-based analyst said.

The opening of the Singapore store came at a time of strong retail competition in the island state, while the Hong Kong stores have been criticised for selecting expensive but poor-selling products.

Mr Wilson Chan, company secretary of Lane Crawford, said he did not see retail sales improving significantly in the rest of the year.

Lane Crawford's first-half operating loss was HK\$57m. One analyst said: "These results are very bad, particularly in light of the fact they do have rental income. Rental income was around HK\$20m, and they have income from their securities portfolio, so you can imagine the operating loss from the stores themselves."

The loss per A-share for the six months to September 30 was HK\$0.803, compared with earnings of HK\$0.334 a year ago. The interim dividend is cut by 17.65 per cent, from HK\$0.20 to HK\$0.17.

Good times still round the corner for Mexico's retailers

Wal-Mart may not have chosen the best of times when it opened four new super-stores in Mexico last week. Only days before, official retail sales figures for September showed a drop of 1.8 per cent on the 1995 figure – which itself had fallen 25 per cent on September 1994. Not until 1998 are sales expected to recover their 1994 levels.

Yet within a few months, stores bearing the names of Kmart and Carrefour are also expected to open. "The big players have decided they cannot just wait while valuable land goes on the market and customers shape their preferences," says Ms Christine Aimar, an analyst at Deutsche Morgan Grenfell in Mexico City. "So they are expanding again."

At the beginning of the 1990s, Mexican retailing was dominated by a handful of large domestic companies that had divided the market between them for years. But a growing population meant traditional small and mid-size stores would be unable to keep pace, and they turned to multinational retailers, which were attracted by expectations of high economic growth.

Wal-Mart, the biggest of the US retailers, paired up with Cifra, Mexico's largest retailer, to establish Wal-Mart and Sam's Club Stores.

Both Price Club/Costco, the US membership warehouse chain, and Auchan, one of France's largest retailers, set up joint ventures with Comercial Mexicana, the second-largest company in the sector.

Carrefour, the French retail group, joined up with Gigante, the next biggest retailer, which also established alliances with Office Depot, Radio Shack and Fleming Companies. And Kmart, the struggling US discount store group, allied with Liverpool, which runs two department stores aimed at upper income consumers.

The new joint ventures bought land and built stores at rates rarely seen before. In 1994 alone, for example, Cifra expanded its floor space by almost half.

Then came devaluation and a consumer crunch from which the sector has yet to recover. In the third quarter this year, Cifra's same-store sales fell 11 per cent on the equivalent period of 1995, while Commercial Mexicana's sales stayed flat despite sharp discounting and growth in tourist and border areas. Gigante's sales dropped 25 per cent in 1995 from the previous year.

However, many are sitting on properties that they bought in 1994: Cifra has between 40 and 50 sites. "The competition is also thinking of expansion," says an executive at Cifra, which had nearly 80 projects on its books at the end of 1994 but opened just 12 stores in 1995. "The buildings for the stores are already there and our ambition is to be the biggest national retailer in Mexico."

Cifra's partner, Wal-Mart, has sufficient money to consider expanding. Other alliances have been less happy; Gigante, which invested about $150m in its marriage to Carrefour, says the venture has hindered it from refurbishing its wholly-owned stores. "If we were separate, our financial strength would be greater," says Mr Ignacio Toussaint, head of corporate finance. The company has also suffered from consolidating the Blanco chain, bought in 1993 for about $124m.

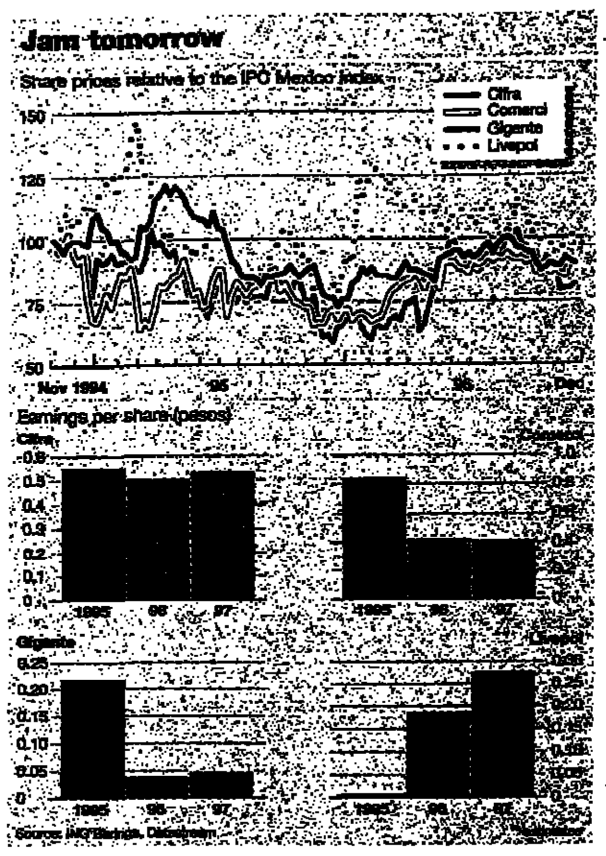
Other ventures face different problems. Liverpool's alliance with Kmart links two dissimilar retailers, as Liverpool's upper and middle class department stores, Liverpool and Fábricas de Francia, attract very different clients from K-Mart. Asked to explain the logic of the joint venture, into which each partner has ploughed $100m, one Liverpool executive suggested it was a shame to pass up sites that could fit Kmart, but not Liverpool. The venture has yet to break even.

Cifra's venture with Wal-Mart divides 343 stores into two groups: those that were operating before the joint venture, and those that opened after, which are 50-50 owned by Wal-Mart and Cifra. The split does complicate administration, and Cifra admits a simpler structure would be preferable.

The depth of the recession has diverted retailers from the rush to snap up locations. Liverpool has been reshaping its merchandise to concentrate on basic items.

Gigante, whose gross margins fell 1.2 percentage points to 20.7 per cent in the first half of 1996, is focusing on increasing its revenues per store; Mr Toussaint believes the group can grow revenue per square metre – which fell from 7,500 pesos ($950) in the first half of 1995 to 6,500 pesos in the first half of 1996 – by up to a quarter.

Clare Gascoigne and Daniel Dombey



AMERICAS NEWS DIGEST

Woolworth to buy Eastbay for $146m

Woolworth, the troubled US retailer that has been showing signs of financial recovery, is to buy the Nasdaq-quoted Eastbay, a mail-order sports shoe retailer, for $146m in cash. The acquisition contrasts with a string of disposals by Woolworth as it has sought to focus on a core of more profitable activities. Mr Roger Farah, Woolworth chairman and chief executive, said Eastbay complemented the group's athletic business, now the biggest and most profitable of its divisions. Woolworth operates about 3,500 sports shoe stores, mainly under the Foot Locker name.

Woolworth is paying $24 a share for Eastbay, with the acquisition expected to close early next year. Eastbay's management will receive $22 a share and up to $1.75 a share more if performance targets are met. The company had net sales of $117.6m in the year to last June. Eastbay's shares jumped $4¾ to $23¾ in early trading, while Woolworth's were unchanged at $24.

Richard Tomkins, New York

Airline suspends payments

Canadian Airlines International, which is in the process of putting together a restructuring plan, has suspended payments to lenders and aircraft lessors on about two-thirds of its short-term obligations.

The move affects about 70 institutions, and covers payments of C$170m (US$126.8m) due over the next six months. The airline plans to renegotiate the payments. Canadian is also seeking concessions from trade unions, government and the Dallas-based AMR, parent company of American Airlines, which has a 33 per cent stake in Canadian. All but one of six unions representing the airline's 16,400 workers have agreed pay cuts averaging 5 per cent. The federal government and the provinces of Alberta and British Columbia have offered fuel tax rebates. Under the plan, AMR would reduce fees it charges Canadian for reservations, marketing and other services.

Bernard Simon, Toronto

Bristol-Myers in screening deal

US pharmaceuticals company Bristol-Myers Squibb has become the latest in the sector to buy in technology in order to screen large numbers of potential new drugs quickly. The New Jersey-based company has signed a research and licencing deal worth up to $60m with Aurora Biosciences, a California biotechnology company.

BMS is buying rights to Aurora's fluorescent screening technology and will collaborate with Aurora to develop screening assays. The two will also work on Aurora's fast screening system, designed to screen 100,000 samples a day. Such technology has become an essential to the research efforts of large drugs companies. Two years ago, Glaxo Wellcome of the UK paid more than $500m for California's Affymax, for its screening technology.

To pay the full $60m, BMS would have to exercise all options for further screens, research funding and milestone payments. The deal allows Aurora to earn royalties on any products identified from these screens.

Daniel Green, London

CEI lifts stake in Cointel

By David Pilling in Buenos Aires

Citicorp Equity Investments is to pay $590m for a 17.5 per cent stake in Cointel, the holding company that controls Telefónica de Argentina (Tasa), taking its holding to 49 per cent.

The purchase of ordinary class A shares from Banco Rio represented a payment of $2.71 per Tasa share, taking into account Cointel's financial debt of $400m, according to a report from Banco República.

This was roughly a 5 per cent premium above Friday's closing price of $2.58.

The contract will be signed in December with payment to take place in February 1997. Cointel holds a 60 per cent stake in Tasa.

Tasa is managed by Telefónica de España, which has a 16 per cent stake in Cointel, said Mr Christopher Ecclestone, of brokers Interacciones.

If Citicorp Equity Investments were planning a management coup, it would need 60 per cent of votes, which would involve the support of minority Cointel shareholders such as the Bank of New York, Bank of Tokyo and local conglomerate Techint.

"Clearly this will be an expensive adventure if it is only to show CEI's faith in Telefónica's managers," Mr Ecclestone said. "I doubt that is the goal."

Mr Ecclestone said some analysts had questioned Telefónica's management fees, which they considered high. CEI might be able to reduce these by hiring in-house managers or passing the management contract on to a US company such as BellSouth or AT&T, both of which are believed keen to enter the Argentine market.

Agco eyes Fendt purchase

By Peter Marsh in London

Agco of the US, one of the world's four biggest makers of agricultural machinery, has started discussions about buying Fendt, Germany's last remaining independent tractor maker and the biggest supplier of tractors for the German market.

Neither company would comment on the talks last night. However, Mr Robert Ratliff, Agco's chairman, has made no secret that Agco is interested in buying Fendt as part of its effort to build sales in Europe.

Agco had sales of $2.1bn last year, and is interested in expanding this to about $5bn by early next century, mainly by growth outside North America, where the company has 40 per cent of its sales.

Mr Ratliff has said he would be willing to spend up to $1.5bn over the next few years on acquisitions to continue the company's run of buys since 1990. Its biggest to date has been the $329m purchase of Massey Ferguson from Varity of the US, in 1994.

In 1960 there were 15 independent German tractor makers, but high German wage costs have contributed to their disappearance.

Fendt, based in Marktoberdorf, Bavaria, has annual sales of about DM900m ($585m) and makes about 7,000 tractors a year – 60 per cent of them for sale in Germany, where it is market leader with a 20 per cent share of new tractor sales. Agco has a German market share of 8 per cent.

The acquisition would put Agco ahead of its main global competitors in tractors – John Deere and Case of the US, and New Holland, of Italy – in the important German market.

Racal shares tumble 18% on warning

By Motoko Rich

Racal Electronics angered investors yesterday when it warned that profits in the current financial year would be nearly a third lower than last, knocking 18 per cent off the value of the shares.

Shares in the defence and electronics group tumbled 50p to 225p as the group said it expected to report full-year pre-tax profits of £50m ($83.5m), against £70.4m last year.

The warning was an apparent *volte face* for the company, which told shareholders in August it was on course to move operating profits "substantially ahead" and raise pre-tax profits even after a £20m restructuring charge.

"There is a bit of egg on the face of the management," said one analyst.

Brokers, who downgraded their forecasts in October after a series of analysts' meetings, again cut figures for the current financial year and for 1997-98. Forecasts for the year to March 1998 slipped from £80m to £70m.

Mr David Elsbury, chief executive, said the board decided at its monthly meeting last Friday to issue the warning after determining it would not meet its revenue targets in the radio division, which sells defence and paramilitary radio equipment to governments in 140 countries.

He said turnover in the division, which has average sales of about £150m a year, was likely to fall by £30m. However, 50 per cent margins in the division meant the effect on the bottom line would be substantial, cutting £15m off profit expectations.

Analysts said the group should have anticipated the shortfall earlier. "There are long lead times in the order book and if the board only found out on Friday then it raises questions about the management or what they are telling us," said one.

Mr Elsbury said the group was conducting a strategic review of the radio division, which is a world leader. He said market research showed the market was likely to contract from £2.4bn in sales today to £1.9bn by 2000.

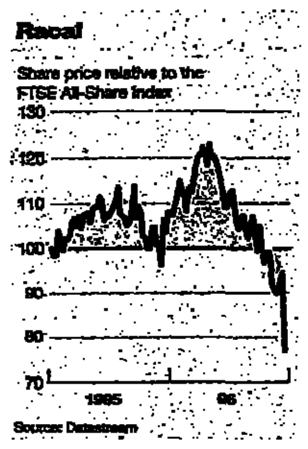
The group would consider redundancies among its 1,300 radio staff. Mr Elsbury would not rule out a disposal of the division.

Full-year profits would fall by a further £5m because of problems in other divisions, which Mr Elsbury declined to elaborate. Details would be provided with the group's interim results today, moved forward from an announcement originally scheduled for Thursday. Pre-tax profits of £21m are expected after a £10m charge for reorganising the data products division.

Mr Elsbury said the group expected profits to increase "substantially" in 1997-98 because of improved results from data products.

LEX COMMENT

Racal



An investment in Racal has traditionally been a bet on the management pulling enough rabbits out of a hat to make up for a disappointing trading performance. Over the past decade, the demergers of Vodafone and Chubb have compensated richly for Racal's own poor showing. Yesterday's profits warning, which knocked 18 per cent off the shares, is a reminder that the business has not lost its power to underperform. The main cause of the £20m profits shortfall is the military radio division – a mature operation with high earnings visibility. This does not sit easily with Racal's sunny optimism just four months ago when it predicted a substantial increase in profits. The real worry, however, is that Sir Ernest Harrison, the chairman, has run out of rabbits: profits at the previously fast-growing network services business are under pressure; while a flotation of lottery operator Camelot, in which Racal has a stake, would be tricky given fears that an incoming Labour government could take away its franchise.

Unsurprisingly, Racal is again being spoken of as a bid target. It is easy to get to a sum-of-the-parts valuation of 300p or more compared with the current 225p share price. But Racal is such a disparate collection of companies that any bidder would have to break it up and painstakingly sell on the parts. Williams Holdings was prepared to do so when it bid in 1991. Whether anyone would be willing to do the same today is doubtful.

S&N hit by Center Parcs

By Roderick Oram

Strong interim profits from Scottish & Newcastle's UK brewing and pubs were undermined by continuing weakness in its Center Parcs holiday complexes on the Continent.

Pre-tax profits rose 26 per cent to £195.1m ($325.8m) in the 26 weeks to October 27, exceeding most forecasts and prompting a minor upgrade in full-year profit estimates.

The shares rose 18p to 657p.

But the upgrades were largely a catch up with the better first half, rather than in anticipation of an improvement in the second. Analysts remained cautious about Center Parcs' slow recovery after an 11 per cent drop in operating profits to £38.9m on sales down 4 per cent to £164.6m.

S&N is investing some £50m over two years to enhance its continental complexes, but profit growth is heavily dependent on a pick up in continental consumer spending.

First half occupancy rates were running at 83 per cent in Germany and the Benelux countries, and at 86 per cent in France. UK centres achieved 91 per cent, plus increases in tariffs and on-site spending.

Emap's dissidents lose vote at EGM

By Christopher Price and William Lewis

Fergus Wilde

Ousted – Ken Simmonds (left) and Joe Cooke

Emap shareholders yesterday voted overwhelmingly to oust dissident directors Professor Ken Simmonds and Mr Joe Cooke from the board of the media and exhibitions group.

The vote was 10 to one against the two non-executives who have fought a bitter battle against the other 11 Emap directors over new articles of association approved by shareholders in July.

However, there was concern among some institutional shareholders over suggestions by Sir John Hoskyns, chairman, that the two rebels would not be replaced.

"We do not need seven non-executives," Sir John told the meeting. "We are about to start the process of recruiting, but these will be replacements for Richard Winfrey, deputy chairman, and myself who are to retire in the next 18 months."

Shareholders said they were confused about Sir John's comments at the extraordinary meeting. Some said they had been assured that two new non-executives would be appointed to replace Prof Simmonds and Mr Cooke.

"We have been told that the non-execs will be there next year at a crucial time," one fund manager said yesterday, referring to the succession of Sir John and Mr Winfrey.

Prof Simmonds and Mr Cooke, who have 27 years of service on the Emap board between them, have argued against the introduction of the articles of association which make it easier for the board to remove directors.

The move to oust them was led by Sir John and Mr Robin Miller, chief executive, and was supported by the rest of the board, who argued that relations with the two had broken down irrevocably.

About 100 shareholders attended the meeting.

Siebe looks for savings in 'defect costs'

By Tim Burt

Siebe, one of Britain's largest engineering groups, is today expected to announce a cost cutting programme that aims to virtually wipe out product defects and save £50m ($84.5m) a year.

The company is planning to become the UK's first industrial manufacturer to adopt a US-pioneered programme which could reduce "defect costs" by more than 90 per cent.

Siebe claims it will become one of a handful of global corporations to use the "six sigma" system, a quality control programme adopted by a number of US groups.

The move coincides with today's announcement of Siebe's first half profits, which industry analysts expect to rise from £144.2m to £187m-£190m, following strong demand for its industrial controls and temperature appliances.

By introducing "sigma six" – named after the statistical benchmarking symbol – some analysts believe Siebe could lift annual profits by more than 15 per cent.

The two-year programme, involving a reassessment of the manufacturing processes at more than 140 of the group's factories, will cost about £20m to implement.

Mr Allen Yurko, chief executive, said the system would enhance Siebe's competitive edge by reducing product defects from about 5,000-per-million units produced to almost zero.

Costs associated with such defects currently represent about 4 per cent of Siebe's £2.6bn annual sales, equivalent to £104m a year.

Texas Instruments, one of the other companies to have adopted the system, yesterday described it as "an extremely powerful tool for quality control".

The US group, however, warned that it would not rely on "six sigma" alone to benchmark its performance against other companies.

When General Electric announced plans to introduce a similar system earlier this year, it committed $200m to reducing defects from 35,000-per-million units to about 4-per-million.

Like GE, Siebe said it would retraining 200 senior production managers – nicknamed "black belts" – who would be responsible for spreading the new quality programme across the group.

The move follows trials of "six sigma" at four Siebe factories, where margins have reached 18 per cent, against an average of 15 per cent elsewhere.

Premier Oil lifts Discovery offer

By Jane Martinson in London and Nikki Tait in Sydney

Oil Search, the Australian energy group, yesterday cleared the way for Premier Oil's takeover of Discovery Petroleum with the sale of its 10.1 per cent stake after the UK oil independent slightly upped its offer for the Australian oil and gas group.

Premier, which now holds 29 per cent of Discovery following its purchase of the stake, said it was confident of taking control. Oil Search had been considered a likely bidder for Discovery.

Premier increased its offer from 80 cents to 81 cents a share, valuing the group at A$108m ($86.8m). It won a recommendation from Discovery's board following weekend discussions in London between the two companies.

Premier launched a A$91m – or 70 cents a share – bid for Discovery at the end of September, increasing its offer to 80 cents at the end of October.

Mr Steve Lowden, manager of Premier's international division, said the latest price was well within the range of net asset valuations. The increased price was worth £1m less than the previous 80 cents a share offer because of the strength of sterling, he added.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Acal	6 mths to Sept 30	72.5	(61.8)	4.65♥	(4.45)	14.2	(13)	3.16	Feb 3	2.75	-	8.4
Allen	6 mths to Sept 29★	71.1	(54.3)	4.71	(3.6)	8.77†	(7.3)	2.8	Jan 31	2.5	-	6.85
Ascot	6 mths to Sept 30	32.7	(33.9)	1.24♠	(8.8♥)	4.8†	(31.5)	-	-	-	-	nil
BTG	6 mths to Sept 30★	12.1	(8.8)	0.17	(2.1L)	0.63†	(21.48L)	-	-	-	-	4
BTP	6 mths to Sept 30	200.1	(188.9)	23.7	(21)	9.91†	(9.07)	4.05	Feb 10	3.85	-	11.2
Columbus	6 mths to June 30⁑	10.5	(1.04)	0.957♠	(0.048L)	0.33	(0.18L)	0.1	Feb 25	-	-	-
Dee Valley Water	6 mths to Sept 30	5.93	(5.8)	3	(2.91)	22.08	(19.59)	5.5	Jan 2	4.83	-	14.5
Eurodollar	6 mths to Sept 30	54.2	(48.7)	4.76	(2.42)	6.79	(3.63)	2	Feb 4	3.12	-	4.12
High-Point	Yr to May 31	41.2	(41.8)	0.633♠	(1.7L)	3.9	(8.7L)	nil	-	nil	nil	0.5
IES Φ	Yr to Sept 30	5.75	(3.2)	0.624	(0.616)	3.2†	(3.7)	1	Apr 2	-	1.6	-
OMI Intl	6 mths to Sept 30	21.6	(21.3)	0.375	(3.32L)	0.52	(4.6L)	nil	-	nil	-	0.75
Orilams	6 mths to Sept 30	45.2	(40.5)	9.63	(7.98)	14.3	(11.7)	5.5	Feb 13	5	-	15
Rowlinson	6 mths to Sept 30	7.86	(6.38)	1.46	(1.31)	7.83	(6.92)	0.31	Jan 17	0.31	-	2.57
Scot & Newcastle	6 mths to Oct 27	1,665	(1,345)	195.1	(154.5♠)	24.3	(21)	7.21	Feb 7	6.55	-	19.43
Stakis	Yr to Sept 29★	205.6	(173.4)	29.2♠	(25.8♥)	5.79	(4.93)	1.2	Apr 11	1	2.15	1.75
Tinsley (Eliza)	6 mths to Sept 30	17.3	(11.7)	0.702	(0.467)	4.5†	(3.6)	2.1	Feb 3	2	-	5.8
Tops Estates	6 mths to Sept 30	8.53☐	(9.66☐)	1.21	(0.803)	1.89	(1.73)	0.705	Mar 28	0.672	-	2.436
Toy Options	Yr to Aug 31 ⁑⁑	30.3	(22.6)	3.66	(1.69)	12.33	(7.16)	2.5	Jan 31	1.73	3.5	1.73

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. ★Comparatives restated. †On increased capital. ⁑Pro forma. ⁑⁑Comparatives pro forma. ☐Rental income.

Gehe attacks UniChem on debt

Gehe, the German pharmaceuticals distributor bidding £650m ($1.09bn) for Lloyds Chemists of the UK, yesterday claimed its rival suitor, UniChem, was putting its own shareholders at risk with an offer which it said would dramatically increase debt ratios, writes Peggy Hollinger.

Mr Dieter Kämmerer, Gehe's chief executive, said that if he were a UniChem shareholder "I would be scared to death". Gehe estimated that the enlarged UniChem debt as a percentage of shareholders' funds could rise to almost 490 per cent.

Gehe's claims came in the offer document posted to Lloyds shareholders yesterday.

UniChem yesterday rejected Gehe's statements. Interest cover would remain at more than five times, it said, and gearing would fall to 50 per cent by the end of 1997.

Both have until January 16 to revise their offers.

LAW

No relief in hardship case

EUROPEAN COURT

The EC treaty did not authorise national courts to order interim relief in an application concerning trader hardship under the regulation on the organisation of the market in bananas, the European Court of Justice has ruled.

The case arose out of an application by the German trading company, T. Port GmbH & Co. KG, concerning import quotas for third-country bananas. In 1993 the regulation introduced common arrangements for their importation which replaced national arrangements.

In accordance with these new rules, Port obtained licences from the German Federal Office for Agriculture and Food to import a certain quantity of third-country bananas on the basis of quantities sold in the reference years 1989 to 1990. In 1994 Port pleaded that it was suffering hardship and requested additional licences on the grounds it had been able to import only an unusually small quantity of bananas during the reference years.

Following an order of the German Federal Constitutional Court, the Higher Administrative Court of Hesse ordered that Port be granted additional licences on an interim basis and referred a series of questions to the European Court of Justice.

The German court asked first whether Article 16(3) or Article 30 of the regulation required the Commission to lay down rules for cases of hardship.

Have analysed the provisions of the regulation and existing case law, the European Court concluded that Article 16(3) did not allow the Commission to lay down rules for cases of hardship but that Article 30 did so authorise. Where difficulties were inherent in the transition from the national arrangements to the new regulation and were not caused by a lack of care on the part of the traders concerned, the Commission was required to lay down such hardship rules.

Turning to the German court's second question, the European Court considered whether the EC treaty authorised national courts to order provisional measures in proceedings for the grant of interim relief to traders until the Commission had adopted an act to deal with the matter.

The European Court reviewed its rulings on the power of national courts to grant interim relief and reiterated that the interim legal protection which Community law ensured for individuals before national courts had to remain the same.

However, the situation raised by the German court was different as it did not concern the grant of interim measures in order to ensure interim protection of rights which individuals derived from the Community legal system. Rather it concerned the grant to traders of interim judicial protection in a situation where, by virtue of a Community regulation, the existence and scope of traders' rights had to be established by a Commission measure which had not yet been adopted.

National courts had no jurisdiction to order interim measures pending action on the part of the Commission and judicial review of alleged failure to act could only be exercised by the Community judicature. It was for the relevant member state to request initiation of the procedures leading to a Commission measure. In a case involving hardship an applicant trader could approach the Commission directly and request it to adopt the measures required. If the Commission failed to act, the member state or trader could bring an action for failure to act before the European courts.

Case C-68/95: T. Port GmbH & Co. KG v Bundesanstalt für Landwirtschaft und Ernährung ECJ (FC) 26 November 1996

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Kaul takes charge at Israel's Clal

There was a mixture of disappointment and excitement last week when Isaac Kaul, chairman of Bezeq, Israel's state-owned telecommunications network, accepted an offer to be chief executive of Clal, one of the country's largest industrial conglomerates.

Disappointment because Kaul, 51, had transformed Bezeq from a sleepy bureaucratic giant into one of the world's most efficient networks since becoming chairman in 1990. By the end of this year, he will have succeeded in digitalising the entire network after hiving off its subsidiaries, opening up Bezeq to competition from international carriers and privatising 23 per cent of the company.

It was hoped that the soft-spoken Kaul would remain until next year to oversee plans by the government to sell off another stake in Bezeq and eventually prepare the ground for the deregulation of the domestic network.

Unlike Koor Industries, its rival, Clal has yet to restructure, concentrate on a core group of sectors and thereby tap its real potential. Its six divisions, ranging from investments to health resorts, together had an aggregate turnover of $5bn last year. But the group has been plagued by problems, most notably in its printing and graphics division and in textiles.

Although Kaul's experience has been rooted in communications, analysts believe the way he turned around Bezeq – breaking through red tape and inviting competition – will serve him well when he takes over Clal next April.

Judy Dempsey, Jerusalem

MTV reshuffles

MTV, the video music channel, is reshuffling its senior management by appointing Frank Brown as president of MTV Asia in place of Peter Jamieson, who is moving to London as executive vice-president of MTV International.

The changes come at a time when MTV is preparing to face fiercer competition worldwide, as digital television comes on stream and new video music channels challenge it for viewers and advertising revenue.

Brown, 37, has worked for MTV since 1988, including stints as senior vice-president of advertising sales for MTV Europe and executive vice-president of MTV Asia, where he took charge of advertising and business development.

In his new role as president of MTV Asia, he will be based in Singapore and will run three channels – MTV Asia, MTV India and MTV Mandarin – with responsibility for programming and production as well as for commercial affairs.

Jamieson, 51, is relocating to MTV's London headquarters after eight years in Asia, where he orchestrated the relaunch of MTV Asia in 1995. The original MTV Asia was forced off air after a row with its carrier, Star TV, part of Rupert Murdoch's News Corporation which then introduced Channel [V], its own music channel.

Alice Rawsthorn, London

Chait returns

Jon Chait (left), freshly installed in Brussels as managing director of Manpower operations outside the Americas, concedes that there are good competitive reasons for the world's biggest temporary employment group setting up its European headquarters now.

Not least of them is the merger announced in May between its two nearest rivals, Adia of Switzerland and France's Ecco, which could yet knock Manpower off its pedestal as global number one. Even though his move was planned well beforehand, Chait admits that the creation of a giant new rival is "an added stimulus to bring a tighter focus to the European group".

There is a strong underlying logic, too. Globalisation is the current buzz-word in the employment sector, where the biggest corporate clients increasingly demand services which cross national boundaries. Add in the growing liberalisation of European employment markets, and Manpower sees the potential for rapid growth in countries such as Germany and Italy.

The move is a return trip to Europe, since Chait – originally Manpower's legal adviser – spent 1989 and 1990 in the UK, helping it free of the debris after the collapse of the British employment group Blue Arrow. Joining the board in 1991, he rose to chief financial officer two years later, a function he continues to fulfil pending the appointment of a successor.

His new title as managing director of the group's international division gives him responsibility for a little over half of Manpower's near $7bn global revenues: Terry Hueneke, who handles the Americas, has the rest. It also puts him among the select band of potential successors to 68-year-old Mitchell Fromstein as the group's chairman. *Nim Caswell, London*

Huntsman's push

Huntsman, America's largest private chemicals company, has appointed its first two European vice-presidents, signalling its determination to establish itself in the region. They are Colin Jones and Christian Caleca, who respectively become vice-president, managing director Europe and vice-president, polymers Europe.

Jones joined Huntsman in 1990, as European financial director, and has been involved in each of the company's European acquisitions, joint ventures and expansions. Caleca has been with the company since 1994 as managing director of the company's European polystyrene business.

The group also appointed three new European directors: Francis Jannequin as director chemicals Europe, Dick Shorney as director manufacturing Europe and Tim Melling as financial director Europe. The five men will make up an executive team for the region.

The appointments are particularly significant given the group's recent reduction in the number of vice-president posts, from 60 to 20. "This really signals our intent to double the size of our business in Europe by 2000," said Jon Huntsman, chairman.

Jenny Luesby, London

ON THE MOVE

■ François De Lavalette, until recently president of Schweppes Europe, succeeds Enrico Sola, who is retiring, as UK-based president and chief operating officer of DEL MONTE Royale Foods. He will be based in the UK, reporting to Vivian Imerman, chairman and chief executive.

■ Tapio Hintikka, president of NOKIA General Communications Products and a member of the Finnish mobile phone group's executive board, is leaving to become managing director of Hackman Group from January 1.

■ Robert Plancher is retiring as chief accounting officer of AMERICAN BRANDS, the US consumer products group, at the end of the year, but will remain as senior vice-president. He is succeeded by Craig Omtvedt. John Thompson joins the board and Joseph Griffin becomes assistant to the chairman.

■ Thomas Matthews stepped down as a vice-president of TEXACO on November 30.

■ William Clark has been appointed senior vice-president and chief financial officer of SPELLING ENTERTAINMENT GROUP. He joins from Walt Disney Studios, where he was most recently senior vice-president, finance.

■ The Dutch banking and insurance group ING has confirmed Mijdert Ververs as chairman; he has been acting chairman since the death of Johan Erbe in September.

■ Thaddeus Beczak has resigned as a director of the BANK OF THE PHILIPPINE ISLANDS, the country's third largest. He is replaced by Vicente Madrigal Warns.

■ BAY NETWORKS has appointed Dave Shrigley, formerly Intel's vice-president of corporate marketing, as its executive vice-president of sales, marketing and service.

■ Keyy McDonald rises from deputy to chairman at BANK OF NEW ZEALAND, following the retirement of Bob Stannard. Hugh Rennie will fill the vacancy left by Sir Alan Hellaby's retirement.

■ Steven Laub has been promoted at LATTICE SEMICONDUCTOR to senior vice-president and chief operating officer. Stephen Skaggs rises to senior vice-president and chief financial officer.

■ Ronald Cieslak rises to vice-president, planning, at GENERAL MOTORS EUROPE from December 1.

■ The Finnish construction group PARTEK has appointed Aker ASA's president and chief executive officer Björn-Rune Gjelsten to the board. Tom Ruud is resigning following his appointment as chief executive of Norway's second largest bank, Kreditkassen.

■ ALLIEDSIGNAL, the German-based speciality chemicals producer, has appointed Norbert Dieterich as head of its Riede-de Haën business unit. He was previously chief executive of American Home Products' German agricultural chemicals and pesticides business, Cyanamid Agrar.

■ ENRON, the Texas-based natural gas and electric company, has announced that Rich Kinder, president and chief operating officer, will be retiring at the end of December. Kenneth Lay will become president as well as chairman and chief executive and has signed a new five-year contract.

■ Kenneth McVey is to retire as director and president of the international division of ELAN CORPORATION, the drug delivery company, at the end of the year.

■ The US sports goods manufacturer LA GEAR has appointed Victor Trippetti as chief financial officer and senior vice-president.

■ COLLIERS JARDINE, the real estate arm of Jardine Pacific, has appointed David Govey as managing director of its Australia and New Zealand wing. Peter Collins will succeed Govey as managing director of Singapore and regional managing director of south-east Asia.

■ Rick Bachmann, president and chief operating officer of THE LOUISIANA LAND AND EXPLORATION COMPANY, is taking early retirement before the end of the year. Leighton Steward, chairman and chief executive, will reassume the role of president.

■ John Walker, president of Interface Europe, joins the board of INTERFACE, the Atlanta-based carpet tile manufacturer which has announced its intention to double its current £175m annual European turnover within four years.

■ Juan Pablo Soriano succeeds Michael Buneman as director general of MOODY'S ESPANA. Buneman moves to a new role as vice-president, developing markets co-ordinator at the US credit ratings group.

■ Tong Chong Heong has returned to FAR EAST LEVINGSTON SHIPBUILDING, the Singapore-based oil rig construction specialist, as executive director. He was previously managing director at Keppel Cairncross Shipyard in Brisbane, part of the sister Keppel Group.

■ Geoff Kleeman joins WOOLWORTHS Australia as chief finance officer.

■ Malcom Brown has been appointed group head of research at W.I. CARR, the Hong Kong-based stockbroking arm of Banque Indosuez. He joins in February from Hoare Govett in London, where he is head of UK equity research.

■ Ram Tarneja and B. Vijayaraghavan have joined the board of ITC, the Indian tobacco and hotels conglomerate, as non-executive directors.

■ Alex Kumar becomes president, international of REVLON's consumer products group, reporting to George Fellows, the US cosmetics group's chief operating officer.

■ Chen Kuo-yung has resigned as president of Taiwan's CHINESE PETROLEUM CORP, following an explosion at the Taoyuan refinery.

■ Glenn Camp rises to president of the mono pump division at DRESSER INDUSTRIES, and Paul Butzberger to executive vice-president of the oil tools division.

International appointments

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MINISTER OF THE STATE TREASURY

INVITES TENDER OFFERS

Concerning Purchase of Shares in the Share Capital

OF THE ROAD AND BRIDGE CONSTRUCTION EXPORT ENTERPRISE

"DROMEX" JOINT-STOCK COMPANY SEATED IN WARSAW

The Minister of the State Treasury, acting on behalf of the State Treasury of the Republic of Poland, in accordance with Art. 23 of the Law on Privatisation of State-Owned Enterprises of July 13, 1990 (Dz.U. No.51 Item 298 with further amendments) invites tender offers from Potential Investors interested in purchasing stakes of shares constituting at least 10% of share capital of the Road and Bridge Construction Export Enterprise "DROMEX" Joint-Stock Company seated in Warsaw, hereinafter referred to as "DROMEX" S.A. or "the Company".

According to the Law of Commercialisation and Privatisation of State-Owned Enterprises of August 30, 1996 (Dz.U. No. 118, Item 561) entitled employees will be offered a stake up to 15% of shares in the share capital of "DROMEX" S.A. free of charge.

According to the Resolution of the Council of Ministers, No. 86 of October 4, 1993, a stake of 5% of shares in the share capital will be reserved by the State Treasury for reprivatisation purposes.

"DROMEX" S.A. activities comprise: construction of motorways, roads, streets, road junctions and interchanges, construction of airfields, runways, taxiways and underground installations, construction of bridges, viaducts and flyovers, construction, modernisation and electrification of railway lines and accompanying objects, deep foundation engineering (piling), construction and exploitation of crushing plants and quarries, exportation and importation of wide assortment of building materials, house equipment, cars, machines, textiles and consumer goods.

Parties interested in proceeding with this offer are kindly requested to contact "Polish Institute of Management" Limited (PIM) acting on behalf of the Minister of the State Treasury in this project.

Address: "Polish Institute of Management" Sp. z o.o. (PIM)
02-691 Warsaw, Obrzezna St. 3, IX floor
phone (22) 43 66 51-53 fax (22) 43 87 50
Transaction manager: Ms. Monika Pielaszek

Information on the Company profile will be submitted to Potential Investors by PIM upon signing up the appropriate "Letter of Confidentiality".

Preliminary offers, prepared in accordance with the guidelines for Potential Investors contained in the Information Memorandum should be submitted by January 17, 1997, 3.00 pm, Warsaw time.

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PUBLIC NOTICES

IN PARLIAMENT
SESSION 1996-97

LLOYDS TSB

NOTICE IS HEREBY GIVEN that application is being made to Parliament by Lloyds Bank Plc, TSB Bank plc and Hill Samuel Bank Limited for leave to introduce in the present Session a Bill under the above name or short title for purposes of which the following is a concise summary:-

To provide for the transfer to and vesting in Lloyds Bank Plc of the undertakings of TSB Bank plc and Hill Samuel Bank Limited.

On and after 4th December 1996 a copy of the Bill may be inspected and copies obtained at the price of £1 each at the offices of:

Lloyds Bank Plc, P.O. Box 112, Canons House, Canons Way, Bristol, BS99 7LB.	Messrs W. & J. Burness WS, 16 Hope Street, Charlotte Square, Edinburgh EH2 4DD.
TSB Bank plc, P.O. Box 6000, Victoria House, Victoria Square, Birmingham, B1 1BZ.	Messrs L'Estrange & Brett, 7 & 9 Chichester Street, Belfast BT1 4JC.
Messrs Linklaters & Paines, Barrington House, 59-67 Gresham Street, London EC2V 7JA.	Messrs Dyson Bell Martin, 1 Dean Farrar Street, Westminster, London SW1H 0DY.

Objection to the Bill may be made by depositing a Petition against it. If the Bill originates in the House of Commons, the latest date for depositing such a Petition in the Private Bill Office of that House will be 30th January 1997; if it originates in the House of Lords, the latest date for depositing such a Petition in the office of the Clerk of the Parliaments in that House will be 6th February 1997. Further information may be obtained from the Private Bill Office of the House of Commons, the office of the Clerk of the Parliaments, House of Lords and the offices of the under-mentioned Parliamentary Agents.

Dated 3rd December 1996

DYSON BELL MARTIN,
1 Dean Farrar Street,
Westminster,
London SW1H 0DY.
Parliamentary Agents.

CONTRACTS & TENDERS

DEPARTMENT OF ECONOMIC DEVELOPMENT

INTRODUCTION OF GAS OF THE NORTH WEST OF NORTHERN IRELAND AND COMPILATION OF CIRCULATION LIST

Recently the Department of Economic Development granted licences to British Gas Trading Ltd for the supply of gas; to Premier Transco Ltd for the conveyance of gas; and to Phoenix Natural Gas Ltd for the supply and conveyance of gas in the Greater Belfast area. (Copies of these licences can be obtained from the Director General of Gas for Northern Ireland, Brookmount Buildings, 42 Fountain Street, Belfast, BT1 5EE, on payment of a fee.) A feasibility study into possible North/South interconnection, extending supply south of the Greater Belfast area, is already underway.

To facilitate the further development of the gas industry in Northern Ireland the Department now wishes to invite expressions of interest from companies and/or consortia in participation in a feasibility study into the possibility of introducing gas to the North West of Northern Ireland.

The Department will consult with those parties who have submitted expressions of interest in a North West study with a view to establishing the nature and form of their participation in the proposed feasibility study.

The results of any feasibility study will be published and participation in it will be strictly on the basis that such participation does not create or imply any light or expectation as respects any subsequent development of the gas industry or in relation to the granting of any licences.

Written expressions of interest should be forwarded to the Department of Economic Development, Energy Division, Netherleigh, Massey Avenue, Belfast BT4 2JP to arrive no later than 5.00 pm on Tuesday, 31 December 1996.

In addition, the Department invites interested companies/consortia to register for inclusion in a circulation list for future documentation, including any Consultation Paper issued by the Director General, on options for the progressive development of the natural gas industry in currently unlicensed areas of Northern Ireland.

Interested companies/consortia wishing to be included in the circulation list should also write to the Energy Division of the Department of Economic Development.

INVITATION FOR EXPRESSIONS OF INTEREST

The Ministry of Defence, Royal Air Force Strike Command has a requirement for the supply of site energy for RAF Saxa Vord in Shetland. The main requirement is for the provision of power to the Technical Site, heat and power to the Domestic Site.

Additionally, the Authority is interested in solutions that can address the following: Stand-by power links to the Families Quarters, upgrade to the thermal efficiency of Domestic Site buildings, and heat to Families Quarters from captured waste heat.

The existing power house facility and plant which supplies 415/240V 50Hz AC is 40 years old in a poor state of repair and will need to be demolished. The site would be available on long lease to any supplier who could make use of it.

Expressions of interest are invited for the provision of the above requirement on the basis of a Private Finance Initiative project for a period of 25 years. Proposals which embrace this requirement within a wider context which may be to the Authority's advantage will also be considered. Potential tenderers will be required to register their interest in writing and to pre-qualify. An Invitation to Negotiate for this work is planned to be issued in April 1997. Expressions of Interest should be made by 18 December 1996 to:-

CB/STC 3 Building 1512
RAF Daws Hill, Daws Hill Lane
High Wycombe, Bucks HP11 1SH

BUSINESSES FOR SALE

Appear in the Financial Times on Tuesdays, Fridays and Saturdays. For further information or to advertise in this section please contact Karl Loynton on +44 0171 873 4874

TENDER ANNOUNCEMENT

HUNGALU Hungarian Aluminium Industrial Co.Ltd.
[85. Margit krt. Budapest, 1024]
(hereinafter referred to as the „Contracting Party" or „Hungalu Rt.") invites bids in an open, one-round tender to sell a quota of its fully owned subsidiary,
AJKA Aluminium Industrial Co. Ltd.
(hereinafter referred to as „Ajka Aluminium Ltd")

The registered capital of Ajka Aluminium Ltd.:	HUF 1,767,820,000
Owner's equity of Ajka Aluminium Ltd. on 31.12.1995:	HUF 1,278,774,000

Bids may be submitted by specifying the bid price for a quota with a rounded nominal value of HUF 1,591,040 thousand, *representing 90 % of the registered capital of Ajka Aluminium Ltd.*

A quota with a rounded nominal value of HUF 176,780 thousand, representing 10 % of the registered capital, shall be separated by Hungalu Rt. from the quota representing a 100 % stake, which shall, following the closing of the tender, pursuant to Act XXXIX. of 1995., be offered for sale at 50 % of the accepted bid price to the employees of Ajka Aluminium Ltd., who may exercise this purchase option within 60 days from the date of publication of this offer. In the event the employees do not, or do not wish to exercise fully the option to acquire ownership in Ajka Aluminium Ltd., bidder shall be obliged to undertake to purchase the remaining quota as well on the conditions specified in its bid.

The purchase price may be paid in cash only, neither deferred payment nor payment in instalments will be accepted by the Contracting Party. Bidders may not use the E-loan facility. Foreign bidders may submit bids in which they determine the bid price in a foreign currency accepted by the National Bank of Hungary as a convertible foreign currency. Such bids shall be accepted by Hungalu Rt. at the foreign exchange purchase rate as officially quoted by the Hungarian Credit Bank (MHB) on the day corresponding to the submission deadline.

Participation in the tender is subject to purchasing, against signing a confidentiality agreement, for a purchase price of HUF 300,000 + VAT, or a corresponding convertible foreign currency amount calculated at the foreign currency buying rate quoted by the Hungarian Credit Bank (MHB) for the day of payment of the above purchase price, the detailed invitation to tender as well as the Hungarian and/or English language tender documents including the Information Memorandum prepared by Ajka Aluminium Ltd. containing the major economic data deemed material to the tender. The documents referred to in the Information Memorandum are available in the Hungarian language.

The above HUF 300,000 + VAT amount, that is, altogether HUF 375,000 shall be payable in cash, or shall be transferred to the Hungalu Rt.'s account No. 10200971-20100690-00000000 kept by the Hungarian Credit Bank [Magyar Hitel Bank]. The tender documentation shall be available only against presentation of a cheque or transfer certificate evidencing payment of the above amount.

The tender documentation shall be available at the Privatisation Directorate of Hungalu Rt., in Room 421., at 85. Margit krt., Budapest, II.

from the 4th December, 1996, on working days between 9 a.m. and 2 p.m.
Telephone: 36-1-175-48-19, Telefax: 36-1-175-58-02

Bidders shall, as an earnest of their bid, deposit, not later than the final date of submission of bids, a bid bond of HUF 20 million to the account No. 10200971-20100690-00000000 opened for this purpose by Hungalu Rt. with the Hungarian Credit Bank Ltd. (Magyar Hitel Bank Rt.). Bidders shall provide evidence of payment of such bid bond upon submission of their bid. Any fees or bank charges payable for the transfer of money shall be borne by the bidder effecting payment.

Bids shall be submitted personally or delivered by a person holding a power of attorney, in the presence of a Notary Public, at the above address, between 9 a.m. and 11 a.m., on the 20th of January, 1996, in 5 Hungarian copies, in a sealed envelope which bears no name of the sender, with the original copy marked as „original". Foreign bidders may enclose an English translation to the Hungarian version of their bid, of which the latter shall be deemed as the governing version.

Envelopes shall bear the marking:

„Ajka Aluminium Tender"

Bids shall be evaluated on the basis of the conditions set forth in the tender invitation. The Contracting Party hereby reserves the right to declare the tender unsuccessful without any legal consequences.

Bidders shall recognise and accept that the winner of the tender shall, within 30 days from the date of notification of the award, enter into a purchase agreement with Hungalu Rt., and shall, if necessary, extend the validity of its bid and the maturity of its payment securities.

Participation in the tender shall be subject to the bidder undertaking to maintain its bid for 120 days from the date of submission thereof.

Information on the tender and on major data and characteristics of Ajka Aluminium Ltd. is available at: HUNGALU Rt., Dr. Nándor Sillinger, Director of Privatization, Telephone: (36-1)-175-65-28, telefax: (36-1)-175-58-02.

INTERNATIONAL CAPITAL MARKETS

US Treasuries withstand strong data

GOVERNMENT BONDS

By John Authers in New York and Richard Adams in London

The US bond market yesterday withstood the release of economic data suggesting the economy was growing quicker than expected – and recorded minimal losses at midday after its strong rally last week.

The national purchasing managers' index rose to 52.7 for November from 50.2 in October, higher than market expectations, while the Commerce Department reported that construction spending rose 1.8 per cent in October.

There was also anecdotal evidence from retailers that the Thanksgiving weekend, traditionally the beginning of the peak sales season, had been the strongest for some years.

But analysts swiftly said the figures were not as worrying as they first appeared. Merrill Lynch said the rise in the NAPM index was most likely due to a jump in the electronic equipment sector, which would not be repeated, while the data were consistent with "modest economic growth and continued low inflation".

The benchmark 30-year Treasury long bond initially fell by $\frac{18}{32}$ on the news, but by midday it had regained most of its losses to be off only $\frac{3}{16}$ for the day at $101\frac{28}{32}$, yielding 6.37 per cent.

This followed the market's strong rally in its shortened trading day last Friday, when the yield fell to 6.34 per cent. Yields at the short end of the market also rose, with the two-year bond dropping by $\frac{1}{32}$ to $100\frac{1}{32}$, to yield 5.82 per cent.

In Europe, a fall in the French jobless total and talk of lower interest rates saw the notional French bond future rise by $0.3\frac{2}{2}$, while its cash equivalent OAT was down 0.04 at 106.58.

German bund futures were hit by profit-taking, as traders cashed in gains made late last week. The December contract on Liffe lost 0.09 to settle at 102.47 in light trade as dealers waited for economic data to be released mid-week.

The soft manufacturing data in the UK failed to shake long gilt futures. Both the December and March contracts rose $\frac{5}{32}$, with the December settling at 112 and March at $111\frac{5}{16}$.

The cash 10-year benchmark gilt gained $\frac{3}{8}$ to end at $101\frac{1}{32}$. Its yield fell two basis points, to 7.32 per cent.

Italian bond futures shrug off concerns on size of budget deficit

Reports that the Italian budget deficit for 1996 may rise as high as 7.5 per cent of gross domestic product did little to stop Italian government bond futures rising yesterday, writes Richard Adams.

With the December contract for BTP futures expiring tomorrow, trading on Liffe, the London futures exchange, was quiet. The December contract settled 0.22 higher at 129.06, while the March contract gained 0.40 from rollover activity to settle at 128.35. The cash market was more subdued, with the benchmark 10-year BTP closing down 0.09 at 113.06.

Ms Ilaria Fornari, economist at J.P. Morgan in Milan, expects the 1996 deficit to be around 7.0 per cent of GDP, falling to 4.0 per cent in 1997.

The size of the budget deficit is an important criterion for membership of European monetary union. Under the Maastricht treaty, Italy will need a deficit of 3.0 per cent or less to qualify.

"I don't think a deficit of 3 per cent is credible until 1998," Ms Fornari said. Then the government may be able to benefit from falling interest rates.

Kazakhstan and Israel prepare debut deals

INTERNATIONAL BONDS

By Conner Middelmann in London and Judy Dempsey in Jerusalem

Kazakhstan officials were in London yesterday to promote the Asian republic's forthcoming bond issue.

The visit was part of a tour of international capitals ahead of the launch of the bonds scheduled for early next week. The issue, expected to total up to $200m of two to three-year bonds, is being arranged by ABN Amro Hoare Govett.

Mr Grigoryi Marchenko, chairman of Kazakhstan's securities commission, said the country did not urgently need the funds, but was undertaking the issue mainly to raise its profile among international investors. "Our main objective is to establish a track record for the country and to open the international capital markets for Kazakh borrowers," he said.

He said the bonds should benefit from Kazakhstan's strong macroeconomic fundamentals: the first year of economic growth since 1989, forecast at 1 per cent for 1996; declining inflation, expected to stand at 20 per cent year-on-year by year-end and set to fall further in 1997; and the country's wealth of natural resources.

He also highlighted the scarcity value of the bonds. "For many investors, this will be the only way of getting exposure to Kazakhstan," he said, unlike Russia, where investors can buy domestic debt instruments and dollar-denominated Ministry of Finance bonds.

Israel is also preparing its eurobond debut, expected this Thursday. The bond is the first to be issued under the country's $750m Euro-pean medium-term note programme – through which it can make several bond issues in different currencies under a single legal framework. The issue is seen as a test case of Israel's economic credibility and fiscal management once the annual $2bn of US-backed loan guarantees expire next year.

Standard & Poor's, the rating agency, yesterday assigned an A-minus long-term foreign currency rating to the forthcoming issue, expected to total $300m-$500m. It said the outlook on the rating was "stable", given the government's commitment to reducing the budget deficit from 4 to 4.5 per cent of gross domestic product this year to less than 3 per cent of GDP next year. However, it said the rating was constrained by a heavy government debt burden, currently 115 per cent of GDP.

Analysts warned that the rating was based on the government's proposed Shk4.9bn ($1.5bn) of cuts in next year's budget, which are already facing opposition from within the conservative Likud-led coalition headed by Mr Benjamin Netanyahu, the prime minister.

Israel Electric Company, the state-owned electricity company, also plans to issue up to $400m of international bonds, after an important decision to move into the debt market rather than the US equity market.

Meanwhile, Spain is considering a jumbo D-Mark bond of up to DM2bn in the five or 10-year sector. However, some dealers felt such a deal would be difficult to execute so close to year-end. "The D-Mark market has performed very well and people have taken the opportunity to clear their books ahead of year-end – the next few weeks are likely to see a softer market," said a Frankfurt dealer.

Spain's state-owned Instituto de Crédito Oficial is set to issue $500m of five-year bonds today via Goldman Sachs. Market talk was of a yield spread of 15 to 16 basis points over Treasuries.

Meanwhile, yesterday saw the launch of a $200m convertible bond for one of China's leading refineries, Zhenhai Refining & Chemical, whose H-shares are listed in Hong Kong. A substantial amount of the issue is being taken up by Atlantic Richfield of the US, which already owns 9.9 per cent of the company, a stake that would increase to 20 per cent after conversion.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Zhenhai Refining & Chm(a)§	200	(3-3½)	100.00	Dec 2003	2.50	-	ING Barings/M Stanley
BNG	200	5.875	99.94R	Dec 2000	0.225R	+2(i)	Paribas Capital Markets
Banco BBA Creditanstalt(l)	100	7.25#	100.00R	Dec 1997	0.25R	+180(T-bill)	Paribas Capital Markets
D-MARKS							
City of Ostrava‡	75	(b)	100.00R	Dec 2001	0.30R	-	ING Barings
YEN							
Deutsche Bk, London(c,l)*	10bn	4.20	100.125	Dec 1998	0.125	-	Deutsche Morgan Grenfell
AUSTRALIAN DOLLARS							
State Bank of NSW	100	6.75	101.10	Jan 2002	2.00	-	Hambros Bank
PESETAS							
KfW International Finance	10bn	6.75	99.65	Jan 2017	2.00	-	Banco Central Hispano

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. §Convertible. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fixing: on or after 12/12/96. Indicated conversion premium: 10–16%. Puttable in Dec 01 to yield Treasuries +75–125bp. Callable from Dec 99, subject to 140% hurdle, at par. b) 6-mth Libor +22½bp. c) Redeemed in yen or US$. i) Over interpolated yield. l) Long 1st coupon.

Bank to clarify rules on credit derivatives

By George Graham, Banking Correspondent

The Bank of England is proposing a conservative regulatory framework for most forms of credit derivative – a new and still ill-defined set of products that allows banks to pass on the risk that their customers might default on a loan.

Clarification of how regulators will treat credit derivatives is expected to help the growth of the fledgling market, which London investment banks expect to grow from $20bn today to more than $100bn by 2000.

"Some banks have been almost looking for a seal of approval, something that says: 'Here's where you put it on the form,'" said one credit derivatives expert.

In their most basic form, known as credit default options, credit derivatives function very like an insurance policy.

Bank B pays Bank A a fee for an option covering a particular bond or loan; if the bond issuer or borrower defaults, Bank A must pay up the full value of the loan.

The Bank of England's guidance on how it will treat credit derivatives is contained in a discussion paper issued today. It invites not only comments on the specific proposals, which build on current EU capital adequacy rules, but also suggestions of "more radical solutions which might require the supervisory capital framework to be changed".

For the time being, however, the proposed treatment is conservative. The Bank is sceptical about whether banks yet know enough about the way credit default options and similar derivatives behave to allow them to use risk models of the kind they apply to trading ordinary swaps and options. It welcomes comments on this point, however.

The discussion paper proposes to treat these forms of credit derivatives in much the same way as bank guarantees or letters of credit: a bank which has bought a default option is swapping the credit risk of the original borrower for the presumably better credit risk of the bank which sold the option, but not eliminating it altogether.

And the Bank says it can only recognise a default option as hedging the credit risk if it runs for exactly the same period as the original loan.

Some of the more active banks in the credit derivative market expressed concern, because the proposed treatment would require them to move credit default options from their trading book to their banking book. This could require them to hold a larger cushion of capital against these derivatives.

The Bank is more open to the idea of treating total return swaps, another category of credit derivative, the same way as other trading risks. This treatment makes it easier to hedge one risk with an offsetting derivative, even if it does not match precisely.

The discussion paper voices a general warning about the need for careful monitoring to make sure any credit derivative safeguards against the risk it is supposed to cover.

* *"Developing a supervisory approach to credit derivatives." Bank of England, Threadneedle Street, London EC2R 8AH, 0171-601-3705.*

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.7360	+0.830	7.07	7.09	7.52
Austria		5.875	07/06	101.1300	-0.170	5.71	5.92	5.94
Belgium		7.000	05/06	108.7100	+0.090	5.77	6.00	6.05
Canada *		7.000	12/06	105.9000	-0.330	6.07	6.11	6.38
Denmark		8.000	03/06	109.7000	+0.140	6.56	6.79	6.80
France	BTAN	5.500	10/01	103.9383	+0.040	4.59	4.84	4.87
	OAT	6.500	10/06	106.5800	-0.040	5.62	5.82	5.93
Germany Bund		6.250	04/06	104.2700	-0.110	5.65	5.81	5.95
Ireland		8.000	08/06	110.4000	+0.220	6.51	6.71	6.88
Italy		9.500	02/06	113.0600	-0.090	7.50†	7.57	8.09
Japan	No 140	6.600	06/01	122.3760	+0.350	1.37	1.62	1.58
	No 182	3.000	09/05	104.7361	+0.490	2.35	2.63	2.70
Netherlands		6.500	06/06	120.8100	-0.090	5.60	5.80	5.88
Portugal		9.500	02/06	116.8000	-	6.96	7.06	7.57
Spain		8.800	04/06	112.3600	+0.310	6.94	7.11	7.73
Sweden		6.000	02/05	94.7600	-0.170	6.85	7.05	7.18
UK Gilts		8.000	12/00	103-17	-3/32	6.97	7.03	6.88
		7.500	12/06	101-07	-3/32	7.32	7.43	7.52
		9.000	10/08	112-12	+6/32	7.42	7.52	7.63
US Treasury *		6.500	10/06	103-04	-4/32	6.08	6.13	6.52
		6.500	11/26	101-22	+1/32	6.37	6.42	6.81
ECU (French Govt)		7.000	04/06	106.8600	+0.170	6.01	6.21	6.31

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.62
Prime rate	8¼	Two month	-	Three year	5.72
Broker loan rate	7	Three month	5.13	Five year	5.86
Fed funds	5¼	Six month	5.29	10-year	6.07
Fed funds at intervention	-	One year	5.39	30-year	6.37

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	129.40	129.42	+0.26	129.52	129.18	92,904	163,630
Mar	129.44	129.46	+0.28	129.54	129.24	13,820	72,873
Jun	128.28	128.28	+0.26	128.28	128.08	511	7,319

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jan	Calls Feb	Calls Mar	Puts Jan	Puts Feb	Puts Mar
125	-	-	-	-	-	0.15
126	-	-	3.65	0.02	-	0.23
127	2.50	-	2.80	0.05	0.22	0.37
128	1.58	1.87	2.02	0.14	0.40	0.60
129	0.81	1.16	1.39	0.37	0.73	0.95

Est. vol. total, Calls 24,057 Puts 15,972. Previous day's open int., Calls 119,716 Puts 103,411.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	102.61	102.47	-0.09	102.65	102.23	193299	176417
Mar	101.66	101.56	-0.09	101.75	101.33	69741	106834

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
10150	0.52	0.83	1.03	1.01	0.46	0.77	0.97	1.91
10200	0.30	0.59	0.78	0.82	0.74	1.03	1.22	2.22
10250	0.16	0.41	0.59	0.65	1.10	1.35	1.53	2.55

Est. vol. total, Calls 20117 Puts 9457. Previous day's open int., Calls 136927 Puts 120217

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	128.80	129.06	+0.22	129.21	128.65	47694	49902
Mar	127.90	128.15	+0.20	128.28	127.80	21189	36309

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Mar	Calls Jun	Puts Mar	Puts Jun
12800	1.97	2.84	1.82	2.74
12850	1.74	2.60	2.09	3.00
12900	1.54	2.37	2.39	3.27

Est. vol. total, Calls 1669 Puts 1812. Previous day's open int., Calls 68066 Puts 54878

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.95	112.21	+0.27	112.24	111.75	56,892	61,430
Mar	111.45	11.746	+0.30	111.75	111.35	2,791	9,461

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	111-26	112-00	+0-05	112-07	111-19	49903	54182
Mar	111-04	111-10	+0-04	111-17	110-29	26213	118716

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jan	Calls Feb	Calls Mar	Calls Jun	Puts Jan	Puts Feb	Puts Mar	Puts Jun
111	0-56	1-23	1-44	2-20	0-36	1-03	1-24	2-30
112	0-27	0-56	1-12	1-56	1-07	1-38	1-56	3-02
113	0-11	0-34	0-51	1-31	1-55	2-14	2-31	3-41

Est. vol. total, Calls 3727 Puts 2294. Previous day's open int., Calls 30749 Puts 20348

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	96.56	96.46	+0.14	96.56	96.32	691	7,196
Mar	96.05	96.02	+0.14	96.06	95.94	435	1,470

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	116-06	116-01	-0-08	116-10	115-30	157,381	216,116
Mar	115-28	115-21	-0-07	115-31	115-19	25,821	249,862
Jun	115-08	115-05	-0-07	115-09	115-04	291	13,396

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	126.86			127.00	126.83	1809	na
Mar	126.35			126.51	126.32	2930	na

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FTSE Actuaries Govt. Securities

Price Indices UK Gilts	Mon Dec 2	Day's change %	Fri Nov 29	Accrued interest	xd adj. ytd
1 Up to 5 years (21)	120.91	-0.05	120.96	1.84	9.44
2 5-15 years (18)	150.33	0.10	150.18	1.86	11.68
3 Over 15 years (9)	172.29	0.42	171.58	3.12	11.63
4 Irredeemables (6)	196.88	0.90	195.13	1.31	13.47
5 All stocks (53)	145.03	0.11	144.87	2.07	10.93
Index-linked					
6 Up to 5 years (2)	203.63	0.07	203.49	1.00	5.28
7 Over 5 years (10)	197.40	0.14	197.13	1.38	4.71
8 All stocks (12)	196.99	0.13	196.73	1.33	4.86

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Dec 2	Nov 29	Nov 28	Nov 27	Nov 26	Yr ago	High*	Low*
Govt. Secs. (UK)	95.63	94.90	94.90	94.73	94.83	95.35	98.34	91.59
Fixed Interest	117.38	117.15	117.04	116.86	116.83	114.07	116.83	110.74

Gilt Edged Activity Indices

	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25
Gilt Edged bargains	101.8	90.8	102.2	107.6	109.5
5-day average	102.4	100.6	102.0	105.1	107.3

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UK GILTS PRICES

Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)						
Treas 13¼pc 1997‡‡	13.13	6.11	100⅞	-⅛	107⅛	100½
Exch 10½pc 1997	10.41	6.22	100⅞	-⅛	107⅛	100
Treas Cnv 7pc 1997‡‡	6.97	6.40	100⅛		101⅛	100⅛
Treas 8¾pc 1997‡‡	8.61	6.46	101⅝		107⅛	101⅝
Exch 15pc 1997	13.98	6.50	107⅛	-⅛	115⅛	107⅛
[illegible]						
Treas 7¾pc 2006‡‡	7.55	7.34	102⅞	+⅛	103⅛	96⅜
Treas 8pc 2002-6‡‡	7.75	7.25	103⅛	+⅛	104⅛	97⅝
Treas 11¾pc 2003-7	9.63	7.22	122⅛	-⅛	125⅛	118⅛
Treas 8½pc 2007 ‡‡	7.86	7.36	108⅛	+⅛	108⅛	101⅛
Treas 9pc 2008 ‡‡	8.02	7.41	112⅛	+⅛	112⅛	103⅛
[illegible]						
Index-Linked						
4⅝pc '98‡‡ (135.6)	0.35	2.27	113⅛	+⅛	114⅛	111⅛
2½pc '01 (78.3)	2.58	3.16	185⅛	+⅛	185⅛	178⅛
2½pc '03 (78.8)	2.81	3.23	182⅛	+⅛	182⅛	171⅛
4⅛pc '04‡‡ (135.6)	2.87	3.26	118⅛	+⅛	118⅛	112⅛
2pc '06 (69.5)	3.02	3.31	192⅛	+⅛	192⅛	179⅛
[illegible]						
Other Fixed Interest						
[illegible]						

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on December 2

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
[illegible]					
SWISS FRANC STRAIGHTS					
[illegible]					
YEN STRAIGHTS					
[illegible]					
OTHER STRAIGHTS					
[illegible]					
DEUTSCHE MARK STRAIGHTS					
[illegible]					
FLOATING RATE NOTES					
[illegible]					
CONVERTIBLE BONDS					
[illegible]					

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated.

CURRENCIES AND MONEY

European central bankers talk dollar higher

MARKETS REPORT

By Simon Kuper

The dollar touched a six-week high against the D-Mark yesterday, buoyed by continuing speculation that France and Germany would weaken their currencies and by strong US economic data.

The French President Jacques Chirac and the German Chancellor Helmut Kohl met this weekend to reject calls by French politicians and policymakers for a weaker franc against the D-Mark. The franc firmed against the German currency yesterday.

But Mr Jean-Claude Trichet, Bank of France governor, told the FT that a lower franc against the dollar was "another matter". Mr Hans Tietmeyer, Bundesbank president, said he too would have "no complaints" about a slightly higher dollar.

The dollar was also boosted by a far stronger than expected US National Association of Purchasing Management index, and by strong US construction spending figures. The dollar closed in London 0.4 pfennigs up against the D-Mark at DM1.542.

It closed only Y0.1 down against the yen, having dropped sharply in early trading after Mr Yasuo Matsushita, governor of the Bank of Japan, said Japan's economic recovery "appears to be becoming more solid".

Sterling rose on the strong dollar and the market's belief that UK interest rates will go up this month, probably after the December 11 monetary policy meeting. The pound gained 1.5 pfennigs against the D-Mark to DM2.598 and half a cent against the dollar to $1.685.

The Swiss franc hit a 23-month low against the dollar, closing at SFr1.313 after the Swiss National Bank injected liquidity into money markets. SNB officials have recently welcomed a weaker franc.

■ France and Germany want a stronger dollar. The problem is how to achieve it. France has said it will ask the G7 to raise the issue. But Mr Rob Hayward, economic advisor at Bank of America in London, doubted whether the US would agree to strengthen its currency.

Some currency analysts believe that the Bundesbank will cut interest rates soon, to sustain the German economic recovery as well as to boost the dollar. But Mr Hayward points out that German rates are already well below US levels. In some European countries, rates are at record lows. Nor is it Bundesbank practice to cut interest rates in order to manage exchange rates – particularly not another country's exchange rates.

A stronger dollar could therefore prove wishful thinking, some strategists believe.

■ One reason why the dollar rose yesterday was a comment by Mr Otmar Issing, Bundesbank chief economist. He said the arrival of a single European currency could cause a shift into dollar deposits, as central banks and investors waited for the euro to prove its strength. But Mr Issing also said that the euro's launch could cut demand for foreign currency holdings, thus hurting the dollar. However, the markets largely ignored the second comment, even though Mr Issing concluded: "The net effect of these various occurrencies cannot be determined in advance."

■ Most currencies traders think the pound has peaked. Yesterday it briefly passed DM2.60 – the median forecast for sterling's peak against the D-Mark in last week's IDEA survey of trading houses.

A gloomy message also emerged from Merrill Lynch's quarterly survey of global investors. The poll showed that fund managers had raised their holdings of sterling well beyond their own targets for currency exposure. They might therefore seek to sell pounds.

Mr Ian Granne, currencies trader at Schroder in London, cited trading last Wednesday afternoon as an omen. The pound fell sharply then, even though no negative news had emerged. "It collapsed because the whole world was long," Mr Granne said. "If most people have bought the pound already, then it can't go much higher." Sterling has appreciated 12 per cent since August.

Yet few traders expect it to drop before the UK next raises interest rates. IDEA's poll suggests sterling will peak at the end of January.

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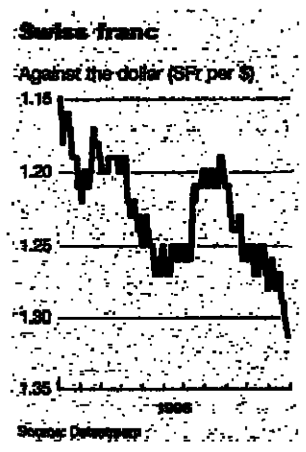

Source: Datastream

■ Pound in New York

Dec 2	—Latest—	— Prev. close —
£ spot	1.6835	1.6815
1 mth	1.6827	1.6807
3 mth	1.6800	1.6780
1 yr	1.6643	1.6620

■ OTHER CURRENCIES

Dec 2	£	$
Czech Rp	45.6369 - 45.8998	27.2170 - 27.2370
Hungary	267.097 - 267.340	158.590 - 158.640
Iran	5055.60 - 5052.60	3000.00 - 3000.00
Kuwait	0.5036 - 0.5051	0.2992 - 0.2997
Poland	4.7932 - 4.8011	2.8460 - 2.8490
Russia	9286.68 - 9296.56	5514.00 - 5516.00
U.A.E.	6.1859 - 6.1899	3.6729 - 3.6731

POUND SPOT FORWARD AGAINST THE POUND

Dec 2		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	18.2844	+0.1085	754 - 934	18.2998	18.2046	18.2409	2.9	18.1844	2.2	-	-	104.3
Belgium	(BFr)	53.6072	+0.3752	828 - 315	53.6315	53.3690	53.4822	2.8	53.2172	2.9	52.0222	3.0	105.0
Denmark	(DKr)	9.9500	+0.054	454 - 546	9.9546	9.9178	9.93	2.4	9.8895	2.4	9.7105	2.4	106.6
Finland	(FM)	7.7908	+0.0452	840 - 976	7.7976	7.7190	-	-	-	-	-	-	84.1
France	(FFr)	8.8177	+0.0421	138 - 215	8.8215	8.7642	8.797	2.8	8.7553	2.8	8.5505	3.0	107.3
Germany	(DM)	2.5984	+0.0155	972 - 995	2.6007	2.5873	2.5919	3.0	2.5785	3.0	2.5138	3.3	108.9
Greece	(Dr)	408.338	+1.89	132 - 545	408.800	405.860	-	-	-	-	-	-	67.0
Ireland	(I£)	1.0010	+0.0015	001 - 019	1.0027	0.9997	1.0007	0.4	0.9997	0.5	0.9931	0.8	103.1
Italy	(L)	2554.09	+8.57	207 - 611	2560.27	2550.00	2557.89	-1.8	2565.39	-1.8	2569.89	-0.6	78.1
Luxembourg	(LFr)	53.6072	+0.3752	828 - 315	53.6315	53.3690	53.4822	2.8	53.2172	2.9	52.0222	3.0	105.0
Netherlands	(Fl)	2.9159	+0.0181	145 - 172	2.9226	2.9047	2.9081	3.2	2.8926	3.2	2.8191	3.3	105.1
Norway	(NKr)	10.8276	+0.048	218 - 333	10.8852	10.8008	10.8151	1.4	10.7901	1.2	10.6901	1.3	99.6
Portugal	(Es)	261.727	+0.961	607 - 846	262.314	261.420	261.922	-0.9	262.292	-0.9	-	-	95.2
Spain	(Pta)	218.885	+1.266	778 - 992	218.992	218.165	219.05	-0.9	219.28	-0.7	219.28	-0.2	79.3
Sweden	(SKr)	11.3271	+0.048	170 - 372	11.3412	11.2864	11.3259	0.1	11.3232	0.1	11.3120	0.1	88.9
Switzerland	(SFr)	2.2131	+0.0248	117 - 145	2.2145	2.1965	2.205	4.4	2.1896	4.2	2.1183	4.3	105.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	84.5
Ecu	-	1.3436	+0.0059	431 - 444	1.3461	1.3412	1.3419	1.7	1.3375	1.9	1.316	2.1	-
SDR†	-	1.158500	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6845	+0.0049	839 - 850	1.6867	1.6818	-	-	-	-	-	-	-
Brazil	(R$)	1.7398	+0.004	389 - 406	1.7424	1.7377	-	-	-	-	-	-	-
Canada	(C$)	2.2788	+0.0143	777 - 799	2.2808	2.2712	2.2736	2.7	2.2626	2.8	2.2038	3.3	85.3
Mexico	(New Peso)	13.3016	+0.0364	934 - 097	13.3097	13.2783	-	-	-	-	-	-	-
USA	($)	1.6847	+0.0044	842 - 852	1.6874	1.6825	1.6839	0.6	1.6813	0.8	1.6658	1.1	97.6
Pacific/Middle East/Africa													
Australia	(A$)	2.0596	-0.0038	577 - 614	2.0621	2.0484	2.0609	-0.8	2.0616	-0.4	2.0612	-0.1	97.1
Hong Kong	(HK$)	13.0261	+0.034	219 - 303	13.0456	13.0094	13.0188	0.7	13.0049	0.6	12.9405	0.7	-
India	(Rs)	60.1691	+0.1487	081 - 290	60.2330	60.0770	-	-	-	-	-	-	-
Israel	(Shk)	5.5152	+0.0401	072 - 231	5.5231	5.4852	-	-	-	-	-	-	-
Japan	(Y)	191.685	+0.467	578 - 793	192.150	191.220	190.755	5.8	188.9	5.8	180.485	5.8	128.1
Malaysia	(M$)	4.2557	+0.0097	538 - 575	4.2641	4.2327	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3670	+0.0062	651 - 689	2.3700	2.3562	2.3737	-3.4	2.3832	-2.7	2.404	-1.6	112.0
Philippines	(Peso)	44.2824	+0.114	103 - 545	44.3545	44.2043	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.3185	+0.0167	164 - 205	6.3283	6.3108	-	-	-	-	-	-	-
Singapore	(S$)	2.3612	+0.0047	596 - 627	2.3661	2.3593	-	-	-	-	-	-	-
South Africa	(R)	7.8179	+0.0742	113 - 244	7.8305	7.7590	-	-	-	-	-	-	-
South Korea	(Won)	1397.71	+4.83	721 - 821	1398.87	1394.96	-	-	-	-	-	-	-
Taiwan	(T$)	46.3124	+0.1235	818 - 430	46.3799	46.2463	-	-	-	-	-	-	-
Thailand	(Bt)	43.0932	+0.1175	762 - 501	43.0840	42.9680	-	-	-	-	-	-	-

† Rates for Nov 29. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Dec 2		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.8592	+0.0361	511 - 553	10.8620	10.8170	10.8384	1.6	10.7932	2.2	10.5982	2.3	104.3
Belgium	(BFr)	31.8200	+0.14	150 - 250	31.8150	31.7060	31.76	2.3	31.6325	2.4	31.0925	2.3	105.0
Denmark	(DKr)	5.9061	+0.0167	051 - 071	5.9096	5.8914	5.8972	1.8	5.8788	1.8	5.7971	1.8	106.2
Finland	(FM)	4.6245	+0.0148	218 - 271	4.6271	4.5862	4.6157	2.3	4.597	2.4	4.5145	2.4	83.7
France	(FFr)	5.2340	+0.0114	332 - 347	5.2365	5.2050	5.2256	1.9	5.2077	2.0	5.132	1.9	106.9
Germany	(DM)	1.5424	+0.0053	421 - 426	1.5437	1.5374	1.5395	2.3	1.5335	2.3	1.5088	2.2	106.6
Greece	(Dr)	242.380	+0.49	330 - 430	242.680	241.640	243.035	-7.7	246.505	-6.8	257.53	-6.3	66.7
Ireland	(I£)	1.6830	+0.0017	820 - 840	1.6870	1.6795	1.6825	0.3	1.6822	0.2	1.6793	0.2	-
Italy	(L)	1516.05	+1.13	530 - 680	1520.05	1514.35	1519.22	-2.5	1525.55	-2.5	1558.7	-1.5	77.5
Luxembourg	(LFr)	31.8200	+0.14	150 - 250	31.8150	31.7060	31.76	2.3	31.6325	2.4	31.0925	2.3	105.0
Netherlands	(Fl)	1.7308	+0.0062	305 - 311	1.7356	1.7247	1.727	2.6	1.719	2.7	1.6834	2.7	105.0
Norway	(NKr)	6.4270	+0.0117	255 - 285	6.4658	6.4133	6.4232	0.7	6.4176	0.6	6.392	0.5	99.1
Portugal	(Es)	155.355	+0.165	330 - 380	155.670	155.100	155.56	-1.6	155.655	-1.3	156.63	-0.8	95.5
Spain	(Pta)	129.925	+0.425	900 - 950	129.950	129.490	130.105	-1.7	130.365	-1.4	131.03	-0.9	79.2
Sweden	(SKr)	6.7235	+0.011	195 - 275	6.7320	6.7033	6.7207	0.5	6.7108	0.8	6.6635	0.9	88.8
Switzerland	(SFr)	1.3137	+0.0114	132 - 141	1.3145	1.3050	1.3099	3.3	1.3021	3.5	1.2692	3.4	106.7
UK	(£)	1.6847	+0.0044	842 - 852	1.6874	1.6825	1.6839	0.6	1.6813	0.8	1.6658	1.1	83.9
Ecu	-	1.2538	-0.0022	535 - 540	1.2582	1.2512	1.2551	-1.3	1.2583	-1.4	1.2749	-1.7	-
SDR†	-	0.690531	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0003	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0327	-0.0003	325 - 329	1.0339	1.0326	-	-	-	-	-	-	-
Canada	(C$)	1.3527	+0.005	524 - 529	1.3540	1.3492	1.3503	2.1	1.3453	2.2	1.3178	2.6	85.0
Mexico	(New Peso)	7.8955	+0.001	930 - 980	7.8980	7.5880	8.0135	-17.9	8.28	-19.5	9.1405	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	98.3
Pacific/Middle East/Africa													
Australia	(A$)	1.2225	-0.0053	217 - 232	1.2232	1.2217	1.2244	-1.5	1.2259	-1.1	1.2314	-0.7	98.0
Hong Kong	(HK$)	7.7320	-	318 - 322	7.7322	7.7318	7.7318	0.0	7.7325	0.0	7.7435	-0.1	-
India	(Rs)	35.7150	-0.005	900 - 400	35.7400	35.6500	35.93	-7.2	36.38	-7.5	-	-	-
Israel	(Shk)	3.2737	+0.0153	699 - 774	3.2774	3.2584	-	-	-	-	-	-	-
Japan	(Y)	113.780	-0.02	750 - 810	113.950	113.560	113.305	5.0	112.3	5.2	108.1	5.0	128.5
Malaysia	(M$)	2.5261	-0.0014	257 - 264	2.5290	2.5261	2.529	-1.4	2.5343	-1.3	2.5556	-1.2	-
New Zealand	(NZ$)	1.4050	-	043 - 057	1.4057	1.4043	1.4105	-4.7	1.4148	-2.8	1.4463	-2.9	-
Philippines	(Peso)	26.2850	-0.001	500 - 200	26.3200	26.2500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	+0.0001	504 - 506	3.7506	3.7504	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4015	-0.001	010 - 020	1.4026	1.4010	1.3993	1.8	1.3947	1.9	1.3735	2.0	-
South Africa	(R)	4.6405	+0.032	380 - 430	4.6490	4.6075	4.6612	-10.5	4.7582	-10.0	5.071	-9.3	-
South Korea	(Won)	829.650	+0.7	600 - 700	830.000	829.300	-	-	-	-	-	-	-
Taiwan	(T$)	27.4900	+0.0015	800 - 000	27.5000	27.4800	27.4901	0.0	27.4803	0.0	-	-	-
Thailand	(Bt)	25.5435	+0.003	410 - 460	25.5460	25.5320	25.6335	-4.2	25.801	-4.0	26.4385	-3.5	-

† SDR rate per $ for Nov 27. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 29: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

December 2	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	$3\frac{1}{4}$	$3\frac{1}{8}$	$3\frac{3}{16}$	3⅛	3¼	6.00	2.50	-
France	$3\frac{11}{32}$	$3\frac{13}{32}$	3⅜	$3\frac{7}{16}$	$3\frac{17}{32}$	3.20	-	4.75
Germany	$3\frac{1}{16}$	$3\frac{1}{8}$	$3\frac{3}{16}$	$3\frac{3}{16}$	$3\frac{5}{16}$	4.50	2.50	3.00
Ireland	$5\frac{7}{32}$	$5\frac{13}{32}$	5¾	$5\frac{13}{16}$	$5\frac{15}{16}$	-	-	6.25
Italy	8	7⅜	7¼	$6\frac{29}{32}$	$6\frac{5}{8}$	9.00	7.50	8.05
Netherlands	2⅞	$2\frac{31}{32}$	3	3	3⅛	-	3.00	3.30
Switzerland	1¾	$2\frac{1}{16}$	$2\frac{1}{16}$	$1\frac{15}{16}$	$2\frac{3}{16}$	-	1.00	-
US	5⅝	5⅜	$5\frac{15}{32}$	$5\frac{17}{32}$	$5\frac{3}{8}$	-	5.00	-
Japan	$\frac{15}{32}$	$\frac{15}{32}$	⅜	⅜	½	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	$5\frac{3}{8}$	5½	$5\frac{17}{32}$	$5\frac{11}{16}$	-	-	-
US Dollar CDs	-	4.96	5.08	5.12	5.24	-	-	-
ECU Linked Ds	-	$4\frac{1}{16}$	4⅛	4⅛	$4\frac{3}{16}$	-	-	-
SDR Linked Ds	-	$3\frac{5}{16}$	$3\frac{5}{16}$	3⅜	$3\frac{15}{32}$	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Dec 2	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	$3\frac{1}{8}$ - $2\frac{15}{16}$	$3\frac{1}{8}$ - $2\frac{15}{16}$	$3\frac{1}{8}$ - 3	$3\frac{5}{32}$ - $3\frac{1}{32}$	$3\frac{7}{32}$ - $3\frac{3}{32}$	$3\frac{5}{16}$ - $3\frac{3}{16}$
Danish Krone	$3\frac{19}{32}$ - $3\frac{13}{32}$	$3\frac{19}{32}$ - $3\frac{3}{8}$	$3\frac{5}{8}$ - $3\frac{1}{2}$	$3\frac{23}{32}$ - $3\frac{9}{16}$	$3\frac{25}{32}$ - $3\frac{5}{8}$	$3\frac{15}{16}$ - $3\frac{13}{16}$
D-Mark	$3\frac{1}{4}$ - 3	$3\frac{1}{32}$ - 3	$3\frac{1}{4}$ - $3\frac{1}{8}$	$3\frac{1}{4}$ - $3\frac{3}{16}$	$3\frac{1}{4}$ - $3\frac{1}{16}$	$3\frac{5}{16}$ - $3\frac{1}{16}$
Dutch Guilder	$2\frac{15}{16}$ - $2\frac{13}{16}$	$2\frac{15}{16}$ - $2\frac{13}{16}$	$3\frac{1}{32}$ - $2\frac{15}{16}$	$3\frac{1}{32}$ - $2\frac{31}{32}$	$3\frac{1}{16}$ - $2\frac{31}{32}$	$3\frac{1}{4}$ - $3\frac{3}{16}$
French Franc	$3\frac{7}{16}$ - $3\frac{7}{16}$	$3\frac{15}{32}$ - $3\frac{3}{16}$	$3\frac{1}{2}$ - $3\frac{11}{32}$	$3\frac{15}{32}$ - $3\frac{11}{32}$	$3\frac{17}{32}$ - $3\frac{7}{16}$	$3\frac{5}{8}$ - $3\frac{15}{32}$
Portuguese Esc.	$6\frac{15}{16}$ - $6\frac{27}{32}$	$6\frac{7}{8}$ - $6\frac{13}{32}$	$6\frac{13}{32}$ - $6\frac{1}{4}$	$6\frac{13}{32}$ - $6\frac{13}{32}$	$6\frac{11}{32}$ - $6\frac{3}{16}$	$6\frac{1}{4}$ - $6\frac{7}{32}$
Spanish Peseta	$6\frac{27}{32}$ - $6\frac{25}{32}$	$6\frac{7}{8}$ - $6\frac{13}{32}$	$6\frac{3}{4}$ - $6\frac{21}{32}$	$6\frac{13}{32}$ - $6\frac{3}{8}$	$6\frac{3}{8}$ - $6\frac{1}{8}$	$6\frac{1}{8}$ - $6\frac{1}{16}$
Sterling	$5\frac{7}{8}$ - $5\frac{1}{4}$	$5\frac{7}{8}$ - $5\frac{1}{4}$	$6\frac{1}{32}$ - $6\frac{1}{32}$	$6\frac{3}{8}$ - $6\frac{3}{16}$	$6\frac{5}{16}$ - $6\frac{1}{2}$	$6\frac{13}{16}$ - $6\frac{7}{8}$
Swiss Franc	$1\frac{13}{16}$ - $1\frac{11}{16}$	$1\frac{13}{16}$ - $1\frac{11}{16}$	$2\frac{1}{8}$ - 2	$2\frac{1}{16}$ - $1\frac{15}{16}$	$2\frac{1}{16}$ - $1\frac{15}{16}$	$2\frac{1}{4}$ - $2\frac{1}{8}$
Can. Dollar	$3\frac{1}{16}$ - 3	$3\frac{1}{8}$ - $2\frac{15}{16}$	3 - $2\frac{7}{8}$	3 - $2\frac{7}{8}$	$3\frac{1}{16}$ - $2\frac{15}{16}$	$3\frac{5}{16}$ - $3\frac{3}{16}$
US Dollar	$5\frac{5}{8}$ - $5\frac{1}{8}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{15}{32}$ - $5\frac{3}{16}$	$5\frac{1}{2}$ - $5\frac{3}{8}$	$5\frac{17}{32}$ - $5\frac{13}{32}$	$5\frac{11}{16}$ - $5\frac{9}{16}$
Italian Lira	$8\frac{3}{8}$ - $7\frac{1}{2}$	$8\frac{1}{16}$ - $7\frac{15}{16}$	$7\frac{7}{16}$ - $7\frac{5}{16}$	$7\frac{5}{16}$ - $7\frac{3}{16}$	$6\frac{29}{32}$ - $6\frac{13}{16}$	$6\frac{5}{8}$ - $6\frac{1}{2}$
Yen	$\frac{15}{32}$ - $\frac{11}{32}$	$\frac{7}{16}$ - $\frac{5}{16}$	$\frac{15}{32}$ - $\frac{5}{16}$	$\frac{7}{16}$ - $\frac{11}{32}$	$\frac{7}{16}$ - $\frac{11}{32}$	$\frac{21}{32}$ - $\frac{17}{32}$
Asian $Sing	$3\frac{3}{4}$ - $3\frac{5}{8}$	$3\frac{7}{16}$ - $3\frac{7}{16}$	$3\frac{1}{2}$ - $3\frac{3}{8}$	$3\frac{1}{2}$ - $3\frac{3}{8}$	$3\frac{1}{2}$ - $3\frac{3}{8}$	$3\frac{1}{2}$ - $3\frac{3}{8}$

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.56	96.52	-	96.56	96.52	10,358	32,824
Mar	96.59	96.56	-	96.60	96.54	23,700	60,703
Jun	96.57	96.55	-	96.59	96.52	10,216	35,834

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.80	96.79	-0.02	96.81	96.78	22839	191814
Mar	96.86	96.85	-0.01	96.88	96.84	33380	208584
Jun	96.82	96.81	-0.02	96.84	96.79	34233	172181
Sep	96.68	96.68	-0.02	96.70	96.65	35424	137257

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.75	96.73	-0.01	96.75	96.73	2	3584
Jan	96.88	96.88	-	96.88	96.88	250	2371
Feb	96.88	96.88	-	96.88	96.88	300	1670
Mar	96.87	96.86	-	96.87	96.86	51	1030

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.97	92.92	-0.07	92.97	92.90	7667	89160
Mar	93.65	93.58	-0.07	93.66	93.57	10134	78525
Jun	93.94	93.92	-0.04	93.97	93.90	2868	47036
Sep	94.03	94.03	-0.02	94.08	94.00	2194	26923

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	97.95	97.90	-0.06	97.95	97.90	3488	25255
Mar	98.00	97.94	-0.09	98.00	97.93	7114	33521
Jun	97.85	97.81	-0.08	97.86	97.80	1514	16140
Sep	97.61	97.60	-0.06	97.65	97.58	982	6956

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	99.49	99.49	-0.01	99.49	99.49	349	0
Mar	99.46	99.47	+0.02	99.46	99.46	20	0
Jun	99.37	99.37	+0.04	99.37	99.37	20	0

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.88	95.88	-0.01	95.88	95.88	648	8196
Mar	95.92	95.92	-	95.93	95.90	807	6674
Jun	95.92	95.93	-	95.94	95.90	282	3757
Sep	95.88	95.89	-0.01	95.88	95.86	113	3239

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9275	0.20	0.88	1.25	0.03	0.05	0.08
9300	0.05	0.66	1.03	0.13	0.08	0.11
9325	0.01	0.47	0.83	0.34	0.14	0.16

Est. vol. total, Calls 1762 Puts 554. Previous day's open int., Calls 125810 Puts 98765

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Dec 2		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.56	16.45	4.846	1.867	4764	5.439	20.20	488.2	408.1	21.13	4.128	1.865	4.251	3.143	357.4	2.507
Denmark	(DKr)	53.88	10	8.862	2.611	1.006	2567	2.931	10.88	263.0	219.9	11.39	2.224	1.005	2.290	1.693	192.6	1.351
France	(FFr)	60.80	11.28	10	2.946	1.135	2896	3.307	12.28	296.8	248.1	12.85	2.510	1.134	2.584	1.911	217.3	1.524
Germany	(DM)	20.64	3.830	3.394	1	0.385	983.1	1.122	4.169	100.7	84.22	4.361	0.852	0.385	0.877	0.649	73.75	0.517
Ireland	(I£)	53.56	9.940	8.809	2.595	1	2551	2.913	10.82	261.4	218.6	11.32	2.211	0.999	2.277	1.683	191.4	1.343
Italy	(L)	2.099	0.390	0.345	0.102	0.039	100.	0.114	0.424	10.25	8.567	0.444	0.087	0.039	0.089	0.066	7.502	0.053
Netherlands	(Fl)	18.38	3.412	3.024	0.891	0.343	875.9	1	3.714	89.75	75.03	3.885	0.759	0.343	0.782	0.578	65.71	0.461
Norway	(NKr)	49.50	9.187	8.142	2.399	0.924	2358	2.693	10	241.6	202.0	10.46	2.043	0.923	2.104	1.556	176.9	1.241
Portugal	(Es)	20.49	3.802	3.370	0.993	0.382	975.9	1.114	4.138	100.	83.61	4.329	0.846	0.382	0.871	0.644	73.21	0.514
Spain	(Pta)	24.50	4.548	4.030	1.187	0.457	1167	1.333	4.950	119.6	100.	5.178	1.011	0.457	1.042	0.770	87.57	0.614
Sweden	(SKr)	47.32	8.782	7.783	2.293	0.883	2254	2.574	9.559	231.0	193.1	10	1.953	0.883	2.011	1.487	169.1	1.186
Switzerland	(SFr)	24.23	4.496	3.985	1.174	0.452	1154	1.318	4.894	118.3	98.87	5.120	1	0.452	1.030	0.761	86.58	0.607
UK	(£)	53.61	9.950	8.818	2.598	1.001	2554	2.916	10.83	261.7	218.8	11.33	2.213	1	2.279	1.685	191.6	1.344
Canada	(C$)	23.52	4.366	3.869	1.140	0.439	1121	1.280	4.752	114.8	96.01	4.971	0.971	0.439	1	0.739	84.07	0.590
US	($)	31.82	5.905	5.233	1.542	0.594	1516	1.731	6.427	155.3	129.9	6.724	1.313	0.593	1.353	1	113.7	0.798
Japan	(Y)	27.98	5.193	4.602	1.356	0.522	1333	1.522	5.652	136.6	114.2	5.913	1.155	0.522	1.189	0.879	100.	0.701
Ecu		39.89	7.403	6.561	1.933	0.745	1900	2.170	8.058	194.7	162.8	8.430	1.647	0.744	1.696	1.254	142.6	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.6505	0.6503	-0.0005	0.6506	0.6483	15,782	66,917
Mar	0.6540	0.6540	-0.0004	0.6540	0.6501	2,181	6,903
Jun	0.6560	0.6565	-0.0018	0.6565	0.6560	95	2,808

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.8809	0.8812	+0.0010	0.8825	0.8790	11,932	64,497
Mar	0.8904	0.8924	+0.0010	0.8935	0.8904	1,900	4,525
Jun	0.9027	0.9027	+0.0002	0.9027	0.9027	106	992

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	0.7679	0.7649	-0.0034	0.7679	0.7618	13,505	53,237
Mar	0.7724	0.7713	-0.0034	0.7724	0.7680	986	5,994
Jun	0.7760	0.7785	-0.0058	0.7770	0.7785	12	761

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	1.6824	1.6842	+0.0030	1.6866	1.6812	3,755	57,861
Mar	1.6824	1.6802	+0.0028	1.6824	1.6802	331	2,450
Jun	-	1.6760	-0.0028	1.6760	-	1	1,269

UK INTEREST RATES

LONDON MONEY RATES

Dec 2	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	$7\frac{1}{2}$ - $5\frac{1}{4}$	6 - $5\frac{3}{4}$	$6\frac{1}{16}$ - $5\frac{31}{32}$	$6\frac{1}{8}$ - $6\frac{1}{32}$	$6\frac{9}{32}$ - $6\frac{3}{16}$	$6\frac{15}{32}$ - $6\frac{13}{32}$
Sterling CDs	-	-	$6\frac{1}{32}$ - $5\frac{15}{16}$	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	$5\frac{13}{16}$	-	-	-
Bank Bills	-	-	[illegible]	[illegible]	-	-
Local authority deps.	$6\frac{1}{8}$ - 6	6 - $5\frac{3}{4}$	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	6¼ - 5½	5⅞ - 5¾	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

Certs of Tax dep. (£100,000): Up to 1 month 3¼; 1-3 month 5; 3-6 months 5; 6-9 months 5; 9-12 months 4½

Certs of Tax dep. under £100,000 is 3¼pc. Deposits withdrawn for cash 1½pc. Ave. tender rate of discount on Nov 29, 5.7176pc. ECGD fixed rate Stg. Export Finance. Make up day Nov 29, 1996. Agreed rate for period Dec 26, 1996 to Jan 25, 1997, Scheme II 7.07pc. Reference rate for period Nov 1, 1996 to Nov 29, 1996, Schemes IV & V 6.373pc. Finance House Base Rate 6½pc from Dec 1, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	93.56	93.56	-	93.57	93.54	6218	98571
Mar	93.31	93.32	-	93.33	93.28	10565	107417
Jun	93.02	93.04	-	93.06	92.98	13672	100745
Sep	92.83	92.86	-0.01	92.88	92.80	8891	59977
Dec	92.73	92.75	-0.02	92.79	92.71	3844	39974

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9350	0.11	0.09	0.08	0.05	0.27	0.54
9375	0.01	0.02	0.03	0.20	0.45	0.75
9400	0	0.01	0.02	0.44	0.69	0.98

Est. vol. total, Calls 1253 Puts 1772. Previous day's open int., Calls 242605 Puts 169169

EMS EUROPEAN CURRENCY UNIT RATES

Dec 2	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.748750	-0.001436	-6.25	8.67	42
Portugal	197.398	195.618786	+0.032786	-0.80	2.70	5
Finland	5.85424	5.81356	+0.00651	-0.66	2.55	4
Spain	163.826	163.404	+0.054	-0.26	2.14	2
Italy	1906.48	1907.30	-3.54	0.04	1.83	-0
Netherlands	2.16979	2.17730	+0.0038	0.35	1.52	-3
Belgium	39.7191	39.8897	+0.0571	0.70	1.17	-5
Germany	1.92573	1.94057	+0.00317	0.77	1.10	-8
Austria	13.5485	13.6582	+0.023	0.79	1.07	-6
Denmark	7.34555	7.42997	+0.00421	1.15	0.72	-8
France	6.45863	6.57068	-0.00459	1.67	0.00	-16
NON ERM MEMBERS						
Greece	295.269	304.621	-0.025	3.24	-1.32	-
UK	0.793103	0.747016	-0.003316	-5.81	8.16	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92 Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
1.670	1.58	2.20	2.76	0.41	1.16	1.67
1.680	0.97	1.65	2.24	0.80	1.61	2.34
1.690	0.55	1.21	1.79	1.49	2.17	2.90

Previous day's vol., Calls 800 Puts 945 . Prev. day's open int., Calls 32,197 Puts 67,940

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	PUTS Dec	PUTS Jan	PUTS Feb
0.650	0.37	0.66	0.89	0.29	0.50	0.63
0.655	0.17	0.44	0.74	0.58	0.77	0.95
0.660	0.04	0.27	0.56	0.99	1.11	1.26

Previous day's vol., Calls 471 Puts 1,473 . Prev. day's open int., Calls 32,391 Puts 26,790

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	94.52	94.51	-	94.52	94.51	35,418	409,017
Mar	94.56	94.56	-0.01	94.56	94.53	54,389	382,326
Jun	94.47	94.46	-0.01	94.47	94.45	40,907	300,422

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	95.01	95.00	-0.01	95.01	95.00	107	2,091
Mar	95.05	95.05	-0.01	95.05	95.04	110	3,815
Jun	94.96	94.95	-0.01	94.96	94.95	8	1,932

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Dec	CALLS Jan	CALLS Feb	CALLS Mar	PUTS Dec	PUTS Jan	PUTS Feb	PUTS Mar
9675	0.05	0.15	0.16	0.18	0.02	0.04	0.05	0.07
9700	0.01	0.03	0.04	0.05	0.22	0.17	0.16	0.20
9725	0	0.01	0.01	0.02	0.46	0.39	0.40	0.42

Est. vol. total, Calls 20170 Puts 17961. Previous day's open int., Calls 525582 Puts 344118

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Dec	CALLS Mar	CALLS Jun	PUTS Dec	PUTS Mar	PUTS Jun
9775	0.15	0.25	0.20	0.01	0.06	0.15
9800	0.03	0.09	0.10	0.13	0.15	0.28
9825	0	0.02	0.04	0.36	0.44	0.62

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 5721 Puts 2373

BASE LENDING RATES

	%		%		%
Adam & Company	6.00	Cyprus Popular Bank	6.00	NatWestminster	6.00
Allied Irish Bank (GB)	6.00	Duncan Lawrie	6.00	Rea Brothers	6.00
Henry Ansbacher	6.00	Exeter Bank Limited	7.00	Royal Bk of Scotland	6.00
Bank of Baroda	6.00	Financial & Gen Bank	7.00	Singer & Friedlander	6.00
Banco Bilbao Vizcaya	6.00	Robert Fleming & Co	6.00	Smith & Williamson Secs	6.00
Bank of Cyprus	6.00	Girobank	6.00	Southern Widows Bank	6.00
Bank of Ireland	6.00	Guinness Mahon	6.00	TSB	6.00
Bank of India	6.00	Habib Bank AG Zurich	6.00	United Bank of Kuwait	6.00
Bank of Scotland	6.00	Hambros Bank	6.00	Unity Trust Bank Plc	6.00
Barclays Bank	6.00	Heritable & Gen Inv Bk	6.00	Western Trust	6.00
Brit Bk of Mid East	6.00	Hill Samuel	6.00	Whiteaway Laidlaw	6.00
Brown Shipley & Co Ltd	6.00	C. Hoare & Co	6.00	Yorkshire Bank	6.00
Citibank NA	6.00	Hongkong & Shanghai	6.00		
Clydesdale Bank	6.00	Julian Hodge Bank	6.00		
The Co-operative Bank	6.00	Leopold Joseph & Sons	6.00		
Coutts & Co	6.00	Lloyds Bank	6.00		
Credit Lyonnais	6.00	Midland Bank	6.00		
		Mount Credit Corp	6.25		

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* In administration

COMMODITIES AND AGRICULTURE

NFU sets out cereal quality assurance plan

By Alison Maitland

Plans for the first UK-wide farm assurance scheme for grain were unveiled yesterday by the National Farmer's Union.

Under the scheme, consumers buying bread or downing a pint of beer should be able to find out if their purchases are being made with cereals produced and handled in accordance with food safety legislation and best farming practice.

The NFU said the need to guarantee the quality and safety of cereal crops had been driven by the "mad cow" crisis, concern over genetically modified foods, and the supermarkets.

Tracing cereals through the production chain is more complex than for meat because grain from different farms is mixed to produce the volumes required by millers and other users. The same problem applies to other commodity products, such as milk.

Mr Peter Limb, chairman of the NFU cereal committee, said it would never be possible to trace a loaf back to an individual farm, but it might be possible to say the wheat had come from one of a number of farms in a region all producing to the same standards.

The idea is to provide assurances to cereal users that the grain was grown with the minimum chemical inputs necessary, transported in clean lorries and kept in hygienic stores. Millers, supermarkets and brewers would then be able to tell their customers that certain standards had been met.

"In many cases, the standards are in place, but the records are not being kept," said Mr Limb, at a conference entitled 'Winning on World Markets', organised by Crops magazine.

The NFU, which plans for the scheme to be run by the grain industry and to be in place for next year's harvest, wants 70-80 per cent of UK cereal production covered within the first few years.

But the plans were attacked for relying initially on self-auditing by farmers, rather than independent verification of quality claims. Mr David Jack, chairman of Scottish Quality Cereals, a scheme covering about a quarter of Scottish cereal output, said: "I believe the trade won't buy it unless it's independently audited."

Mr David Richardson, chairman of Linking Environment and Farming (LEAF), which promotes minimal use of chemicals in agriculture, said the scheme should set environmental standards.

Barrick takes the heat out of Meikle

Sometimes when a drill bites into the rock at the Meikle underground mine in Nevada, steam and water vapour come streaming out. Hot springs injected the rock with gold between 7m and 14m years ago. In geological terms that was a recent phenomenon, so the rocks are still cooling down.

Touching the rock in some places is like touching a metal kettle just after it has boiled. Ground water temperatures average 140°F (60°C).

However, those same hot springs deposited at least 6.6m troy ounces or 205 tonnes of gold in the Meikle deposit. There is an average of 0.68 ounces of gold in every tonne of ore, making it one of the highest grade mines in the US.

As mine manager Mr Rod Pye points out, Barrick Gold, the Canadian company which owns the Meikle and the nearby Betze-Post open pit mine, has to move only two tonnes of rock to produce an ounce of gold at Meikle, compared with 79 tonnes in the open pit.

When Meikle reaches full production at the end of the year, Barrick should be mining 2,000 tonnes of ore a day and the mine is expected to deliver an annual 400,000 ounces of gold, making it the biggest producing underground gold mine in the US.

Preparing to get the gold out is not easy. Unlike South Africa's deep gold mines, Meikle does not get hotter the deeper you go. The heat is constant. Whenever rock is broken, heat is released.

"There are some places in this mine where people would die from the heat if we had let nature take its course," Mr Pye says. "But we can make winter weather in the mine even on the hottest summer day. We can lower the temperature from 100°F to 50°F."

To develop its mine, Barrick first had to lower the water level. This was accomplished in tandem with the mine at Betze-Post, where most of the ore was below the original water table. The water table was drawn down, through pumping, ending at 600ft (182m) below the pit floor. This also lowered the water table in the Meikle deposit.

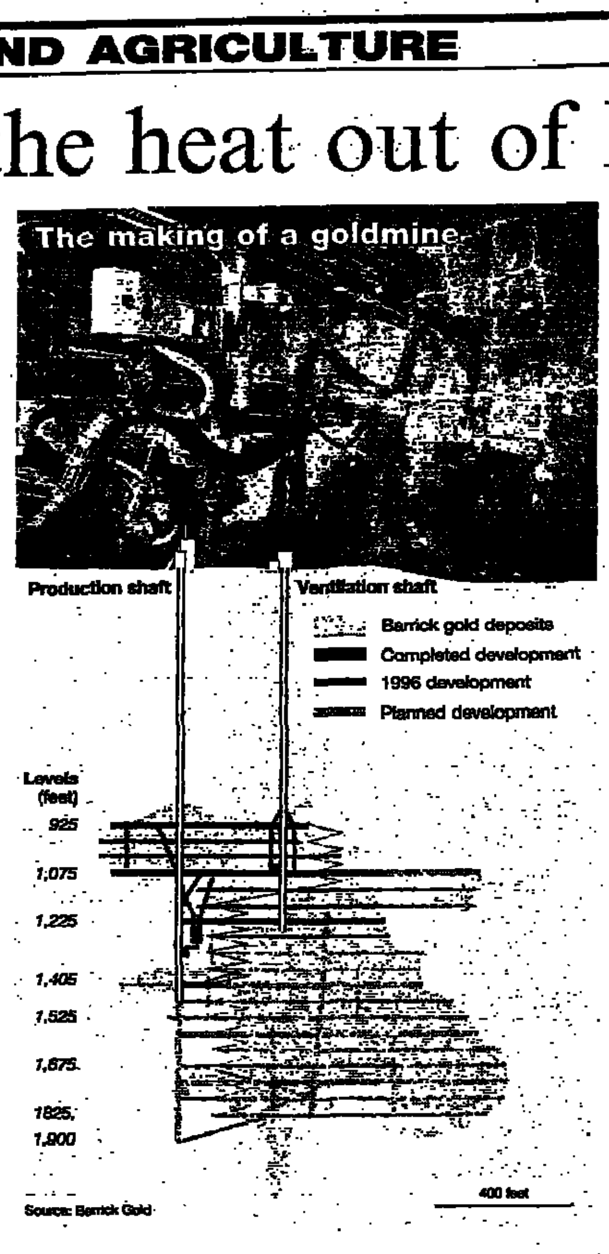
For the next step, Barrick borrowed technology used in South Africa's deep mines. It has spent $19m of the total $180m needed to develop Meikle on installing the biggest mine refrigeration system in North America.

It can pump about 600,000 cu ft (17,000 cu m) or almost 18 tonnes of air a minute at 40°F through the mine. This produces a comfortable average temperature of just over 81°F throughout the mine.

"We are not using any untried technology in Meikle. Nothing unique," Mr Pye says. "We faced enough risks anyway. For example, we did not know what the impact of the heat would be before we started developing the mine. So we looked around the world at other mines to see what was best for us."

Equipment was purchased to suit the ore body and people were hired for their suitability to work on the deposit.

Leading the Barrick team was Mr Louis Dionne, the vice-president of Canadian operations, chosen because of his experience in Canada, where most mines are underground and accessed through vertical shafts, unlike most gold mines in the US that are open pit or entered through tunnels.



Source: Barrick Gold

Construction of the mine started in March 1994. By December last year Barrick had reached the present depth of 1,480ft. The ventilation shaft goes to a depth of 1,320ft and was finished in June.

Naming mines can be tricky but Barrick had no hesitation about its new project, once it became clear it was going to be a big, long-life, low-cost – about $125 an ounce – producer. Meikle is named after Mr Brian Meikle, Barrick's senior vice-president of development until his retirement. It was he who helped to persuade Barrick to buy the Goldstrike property on Nevada's Carlin Trend, which now contains Betze-Post and Meikle.

The two mines produce about 2m ounces of gold a year, nearly one-third of all the gold mined in Nevada and about one-fifth of the gold mined in the US.

Goldstrike's riches have helped make Barrick the third-largest gold producer in the world – the property already has 30m ounces of gold in its reserves.

Mr Eric Lauher, chief exploration geologist, remembers the excitement in 1988 and 1989 when Barrick's drill rigs were hitting 1m ounces of gold each month.

Even so, he says, the Meikle deposit was nearly missed. The target area had been scheduled to have 15 holes drilled in it in those two years. Not until the thirteenth hole did Barrick hit the Meikle ore.

Kenneth Gooding

Rio Algom to raise output in Chile

By Bernard Simon in Toronto

Canada's Rio Algom plans to boost output at its Cerro Colorado copper mine in northern Chile by almost 70 per cent, at a cost of US$196m.

The project is due for completion by mid-1998, raising annual refined copper production to 220m lbs in 1999, from 130m lbs now.

Reserves at the expanded rate will be sufficient for about 20 years of production, and the expansion will lower average cash costs to 48 cents a pound from 53 cents, in 1996 dollar terms.

Cerro Colorado, which came on stream in mid-1994, completed a 50 per cent expansion late last year. The mine, located 130km inland in the Atacama desert, produces cathode copper using a pioneering bacterial and chemical leaching process which is followed by solvent extraction.

The mine's operating profit reached C$37.4m (US$27.8m) in the first half of this year, from revenues of C$90.8m.

Separately, Cominco, the Vancouver-based metals group, said it planned to expand zinc mining projects in Alaska and Peru using the proceeds from the sale of its stake in Aur Resources, the Canadian copper producer.

It raised about C$35m from the sale of less than 10 per cent of Aur's shares.

Cominco, which accounts for about 10 per cent of world zinc output and 6 per cent of lead, is in the process of expanding its big Red Dog mine in Alaska.

It is also expected to enlarge its 82 per cent-owned Cajamarquilla zinc refinery in Peru to an annual capacity of about 230,000 tonnes.

Wave of selling lifts hopes of less turmoil in copper tomorrow

MARKETS REPORT

By Kenneth Gooding and Robert Corzine

On the London Metal Exchange yesterday a wave of selling forced down copper prices, raising hopes that market turmoil forecast for tomorrow – when dealers must declare whether they want to exercise options – is less likely.

The downward pressure was helped by suggestions that LME stocks will show another rise of between 2,000 and 4,000 tonnes when the exchange reveals the latest statistics this morning.

Nevertheless, traders said the market remained critically short of physical copper and extremely volatile. There was still a chance the price would jump in hectic options activity.

Copper for delivery in three months ended $55 a tonne below Friday's close, at $2,187. The premium for copper for immediate delivery compared with three-month metal eased from $245 a tonne but was still high at $185.

Selling by investment funds pushed platinum to a three-year low of $373.75 at the afternoon "fix" in London. Gold closed down 45 cents an ounce at $371.05.

Oil prices rallied in late London trading after a week opening, on claims that Iraq has signed its first contracts for the sale of crude oil under the United Nations oil-for-food plan.

The price of benchmark Brent Blend for January delivery jumped to around 23.20 a barrel on Monday evening, almost 40 cents up on Friday's close. Refined products also benefited from steady or firmer prices.

Crude and refined product prices on the Nymex also rose, although activity was modest on the first trading day after the long Thanksgiving weekend.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE (Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1498.5-99.5	1525-26
Previous	1509-10	1536-37
High/low	1494	1536/1518
AM Official	1493-94	1522-23
Kerb close		1518-19
Open int.	247,493	
Total daily turnover	69,972	

■ ALUMINIUM ALLOY ($ per tonne)

Close	1328-33	1358-60
Previous	1335-45	1365-70
High/low		1372/1362
AM Official	1330-33	1362-63
Kerb close		1365-70
Open int.	6,447	
Total daily turnover	1,115	

■ LEAD ($ per tonne)

Close	663-64	692-93
Previous	674-5	683-4
High/low		692/683
AM Official	675.5-76.5	686-87
Kerb close		687-88
Open int.	39,267	
Total daily turnover	10,252	

■ NICKEL ($ per tonne)

Close	6740-50	6825-30
Previous	6730-40	6820-25
High/low	6735/6730	6870/6800
AM Official	6730-35	6815-20
Kerb close		6840-50
Open int.	48,500	
Total daily turnover	12,821	

■ TIN ($ per tonne)

Close	6075-80	6090-100
Previous	6075-85	6095-100
High/low		6120/6080
AM Official	6095-100	6105-08
Kerb close		6080-85
Open int.	15,467	
Total daily turnover	2,990	

■ ZINC, special high grade ($ per tonne)

Close	1047.5-48.5	1070-71
Previous	1047.5-48.5	1070-70.5
High/low		1072/1067
AM Official	1045-45.5	1069-69.5
Kerb close		1066-67
Open int.	84,211	
Total daily turnover	17,685	

■ COPPER, grade A ($ per tonne)

Close	2420-25	2215-16
Previous	2468-73	2237-38
High/low	2468/2465	2240/2187
AM Official	2464-65	2231-32
Kerb close		2187-90
Open int.	173,508	
Total daily turnover	78,260	

■ LME AM Official £/$ rate: 1.6835
LME Closing £/$ rate: 1.6850

Spot 1.6543 3 mths 1.6609 6 mths 1.6755 9 mths 1.6701

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	105.60	-4.70	109.35	105.00	4,070	9,266
Jan	103.30	-5.50	108.00	103.30	1,450	5,791
Feb	101.60	-5.20	104.80	101.60	15	1,192
Mar	100.10	-4.70	104.00	99.50	4,889	36,165
Apr	95.40	-4.60	98.40	98.40	31	701
May	97.00	-3.30	99.60	96.00	307	4,062
Total					11,008	61,902

PRECIOUS METALS

■ LONDON BULLION MARKET (Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	370.70-371.00		
Opening	370.10-370.40		
Morning fix	370.50	219.790	484.985
Afternoon fix	370.75	229.056	485.275
Day's High	371.10-371.40		
Day's Low	370.00-370.30		
Previous close	371.30-371.60		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	2.64	6 months	3.18
2 months	2.64	12 months	3.32
3 months	2.69		

Silver Fix	p/troy oz.	US cts equiv.
Spot	280.75	473.30
3 months	284.70	479.00
6 months	289.05	484.90
1 year	298.15	496.80

Gold Coins	$ price	£ equiv
Krugerrand	370-372	220-221
Maple Leaf	375.55-378.00	-
New Sovereign	87-90	52-53

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	369.9	-4.1	371.2	368.5	9,127	6,680
Feb	370.9	-4.1	373.9	370.7	27,846	91,065
Apr	372.9	-4.1	375.0	373.0	484	20,389
Jun	375.1	-4.1	377.3	375.1	574	12,982
Aug	377.4	-4.1	377.7	377.7	2	5,430
Oct	379.7	-4.2	-	-	23	2,105
Total					38,184	185,911

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	375.7	-4.2	378.9	375.4	2,148	17,847
Apr	378.2	-4.3	380.5	377.6	407	8,440
Jul	381.1	-4.3	384.0	380.5	5	988
Oct	384.2	-4.3	386.5	386.5	2	212
Total					2,598	27,487

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	116.05	-0.95	115.75	114.50	858	1,213
Mar	117.65	-1.05	118.00	116.00	1,032	7,053
Jun	118.90	-1.20	118.25	118.25	3	252
Dec	120.90	-1.20	-	-	4	17
Total					1,884	8,549

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	467.1	-3.8	470.0	465.0	5,289	3,306
Jan	469.1	-4.3	469.0	469.0	-	26
Mar	474.2	-4.3	477.5	472.0	15,170	57,457
May	478.4	-4.3	481.0	476.5	1,523	9,858
Jul	482.7	-4.3	487.0	481.0	727	7,102
Sep	487.1	-4.4	490.0	488.5	16	3,135
Total					22,817	88,048

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	23.76	+0.03	23.92	23.52	24,789	89,688
Feb	23.32	-0.02	23.40	23.08	14,599	46,080
Mar	22.90	-0.03	22.95	22.70	5,644	25,229
Apr	22.50	-0.01	22.56	22.30	2,540	19,631
May	22.03	-0.03	22.06	21.90	1,383	15,129
Jun	21.68	-0.03	21.75	21.51	1,404	27,179
Total					57,335	366,747

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	22.80	+0.03	22.88	22.68	8,646	54,864
Feb	22.20	+0.07	22.30	22.10	3,697	40,034
Mar	21.68	-0.05	21.76	21.58	1,116	29,703
Apr	21.15	-0.05	21.27	21.11	773	12,137
May	20.65	-0.05	20.79	20.64	145	6,166
Jun	20.25	-0.07	20.35	20.18	820	11,512
Total					17,188	174,689

■ HEATING OIL NYMEX (42,000 US galls; c/US galls)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	70.95	-0.83	71.95	70.00	19,500	44,700
Feb	69.10	-0.53	69.70	68.40	3,410	18,666
Mar	66.00	-0.28	66.25	65.60	1,124	11,620
Apr	62.00	-0.28	62.05	61.70	623	5,132
May	59.10	-	59.55	59.10	427	4,022
Jun	57.35	-0.13	57.30	57.10	276	4,593
Total					46,184	115,304

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	219.75	-0.50	221.50	218.50	5,478	20,473
Jan	216.25	-0.25	217.50	214.75	3,341	29,758
Feb	208.75	+0.25	209.50	207.75	1,338	10,566
Mar	199.75	-	200.25	199.00	276	7,097
Apr	190.75	-0.25	191.25	189.75	310	5,271
May	185.50	-	186.25	185.00	24	2,886
Total					11,000	86,852

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	3.280	-0.217	3.380	3.280	7,261	40,227
Feb	2.910	-0.146	2.970	2.900	1,957	21,170
Mar	2.615	-0.089	2.650	2.600	1,153	13,763
Apr	2.305	-0.055	2.320	2.300	442	7,419
May	2.225	-0.040	2.225	2.200	421	6,531
Jun	2.185	-0.050	2.190	2.180	333	4,894
Total					13,653	140,552

■ UNLEADED GASOLINE NYMEX (42,000 US galls; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jan	65.75	+0.29	65.90	65.00	11,429	28,312
Feb	64.80	+0.20	64.80	64.25	3,158	10,312
Mar	64.60	+0.35	64.60	64.20	1,199	6,858
Apr	65.05	-0.10	66.05	65.70	425	3,981
May	65.30	-0.35	65.40	65.40	468	2,073
Jun	64.80	-	64.85	64.85	113	1,973
Total					30,283	88,101

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	92.60	-0.55	93.00	92.90	33	1,682
Mar	94.60	-0.55	95.00	94.50	58	2,122
May	96.00	-0.50	96.40	96.00	101	2,159
Jul	97.50	-0.50	98.00	97.50	23	340
Sep	92.75	-0.25	-	-	-	2
Nov	94.75	-0.25	94.75	94.65	15	786
Total					221	7,091

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	393.25	-2.75	398.00	391.00	1,645	3,499
Mar	377.25	-0.25	380.00	374.50	9,327	32,589
May	354.75	-3.25	358.50	353.50	812	4,972
Jul	335.00	-2.75	338.50	334.75	2,881	15,018
Sep	340.00	-2.00	343.50	339.00	267	512
Dec	350.00	-2.00	350.50	349.50	72	257
Total					14,884	56,988

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	266.50	-4.25	270.75	265.50	13,462	37,769
Mar	265.75	-5.25	271.00	265.00	21,079	128,922
May	269.25	-5.00	274.50	268.00	4,610	49,498
Jul	272.25	-5.25	279.00	272.00	2,725	45,714
Sep	265.50	-5.75	270.00	265.50	717	5,785
Dec	264.00	-4.75	267.50	263.75	1,933	34,013
Total					44,132	303,914

■ BARLEY LIFFE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	90.80	-	90.80	90.80	5	582
Mar	91.80	-	91.35	91.35	10	239
May	92.80	-	92.35	92.35	10	125
Sep	91.80	-	-	-	-	1
Nov	93.80	-	-	-	-	174
Total					28	1,121

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	703.50	-9.25	711.50	699.50	18,423	65,714
Mar	698.75	-8.75	706.50	696.00	6,501	37,112
May	695.50	-7.25	699.75	694.00	1,067	20,937
Jul	695.50	-7.75	702.00	695.25	1,625	16,986
Aug	693.75	-7.75	698.00	693.50	116	2,639
Sep	677.75	-6.25	678.50	678.00	102	337
Total					28,227	158,249

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	22.74	-0.24	22.90	22.68	9,730	6,562
Jan	22.99	-0.27	23.21	22.94	12,777	33,112
Mar	23.32	-0.31	23.57	23.31	2,977	26,036
May	23.64	-0.31	23.85	23.65	290	12,352
Jul	23.91	-0.36	24.10	23.86	143	7,504
Aug	23.95	-0.35	24.10	24.10	61	1,650
Total					26,059	90,080

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	237.9	-1.6	239.7	235.5	5,575	15,466
Jan	227.8	-1.7	229.3	225.0	4,567	26,618
Mar	220.9	-2.0	222.5	219.6	2,586	21,890
May	216.3	-2.2	218.5	215.0	1,002	11,581
Jul	215.0	-2.8	216.5	214.7	572	8,205
Aug	213.8	-2.2	214.0	213.2	58	2,042
Total					14,833	86,574

■ POTATOES LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	54.5	+2.0	-	-	-	-
Apr	64.5	+2.0	65.0	63.0	50	1,205
May	69.5	+2.0	-	-	-	20
Jun	79.5	+2.0	-	-	-	-
Apr	117.0	-	117.0	117.0	12	542
Total					62	1,769

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1440	+40	1440	1420	42	532
Jan	1391	+31	1395	1370	241	1,997
Apr	1411	+31	1415	1390	11	849
Jul	1180	+25	1180	1180	4	310
Oct	1280	+5	-	-	-	79
Jan	1290	+5	-	-	-	35
Total					347	3,882

	Close	Prev
BFI	1427	1423

FUTURES DATA
All futures data supplied by CMS.

Tea
There was strong general demand this week reports the Tea Broker's Association. Landed colouory Assams met improved competition with prices often 2-4p/kg. dearer. Plainer types remained firm. Brighter East Africans gained several pence while coloury mediums sold well and frequently appreciated 2-3p. Offshore good demand. Better liquoring Kenyas and Zimbabwes advanced but others were barely steady. Quotations: landed best available 170p/kg, good: 130p/kg, good medium: 123p/kg, medium: 114p/kg, low medium: 90p/kg, nom the highest price realised this week was 170p/kg, for a rwanda pl.1.

SOFTS

■ COCOA LIFFE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	867	-2	888	867	870	2,729
Mar	921	-9	933	917	3,283	52,964
May	939	-9	945	937	284	15,615
Jul	954	-11	957	954	50	12,378
Sep	969	-8	974	969	176	7,460
Dec	980	-10	988	980	55	5,785
Total					4,819	122,137

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	1348	-23	1364	1345	13	200
Mar	1400	-16	1408	1394	6,275	41,747
May	1421	-15	1426	1414	683	10,151
Jul	1438	-14	1443	1435	127	7,316
Sep	1458	-17	1457	1452	14	6,555
Dec	1478	-17	1470	1470	15	899
Total					7,127	75,786

■ COCOA (ICCO) (SDR's/tonne)

Nov 29	Price	Prev. day
Daily	na	na

■ COFFEE LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	1337	+1	1342	1320	2,084	18,595
Mar	1288	-6	1303	1283	1,554	13,411
May	1266	-9	1285	1266	533	5,872
Jul	1265	-8	1285	1265	123	894
Sep	1265	-17	1280	1265	35	802
Nov	1265	-17	1332	1325	50	449
Total					4,332	39,823

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	114.80	-1.45	115.75	114.70	375	1,336
Mar	106.05	-1.70	107.40	104.50	2,323	18,853
May	103.70	-1.60	105.00	102.50	371	5,336
Jul	102.65	-1.00	103.70	101.75	56	1,180
Sep	101.25	-1.25	103.00	100.50	18	883
Dec	99.65	-1.85	101.50	99.60	5	424
Total					3,132	26,877

■ COFFEE (ICO) (US cents/pound)

Nov 29	Price	Prev. day
Comp. daily	na	na
15 day average	na	na

■ WHITE SUGAR LIFFE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	304.7	+0.8	305.2	303.5	1,199	15,843
May	304.4	+0.4	305.0	303.5	101	4,814
Aug	305.3	-0.4	305.5	305.3	61	2,406
Oct	298.9	-1.7	301.7	301.0	144	1,563
Dec	299.9	-2.8	302.5	302.4	-	551
Mar	303.1	-1.5	-	-	-	373
Total					1,458	25,575

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	10.66	-	10.71	10.63	4,828	78,539
May	10.74	+0.01	10.76	10.71	893	30,559
Jul	10.67	+0.01	10.70	10.66	1,077	21,153
Oct	10.70	-	10.73	10.70	211	12,919
Mar	10.70	-0.01	10.73	10.71	60	3,685
May	10.70	-0.01	10.73	10.73	6	826
Total					7,069	148,191

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	75.25	+0.45	75.25	73.80	666	850
Mar	76.49	+0.42	76.54	75.42	7,043	28,172
May	77.65	+0.40	77.70	76.70	965	10,025
Jul	78.40	+0.45	78.40	77.75	608	7,131
Oct	77.83	+0.03	77.80	77.80	56	1,258
Dec	77.35	+0.05	77.40	77.05	822	7,402
Total					9,873	53,822

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	95.40	-1.75	97.80	95.10	1,236	13,846
Mar	98.05	-1.45	101.05	98.00	1,272	8,095
May	102.05	-1.15	103.60	102.20	46	2,703
Jul	104.80	-0.85	104.50	104.50	3	832
Sep	106.80	-0.65	107.40	107.25	1	253
Nov	106.30	-0.65	-	-	-	53
Total					2,582	26,789

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Dec 2	Nov 29	month ago	year ago
1863.2	1865.5	1852.8	2147.8

■ CRB Futures (Base: 1967 = 100)

Nov 28	Nov 27	month ago	year ago
243.36	244.85		

■ GSCI Spot (Base: 1970 = 100)

Nov 29	Nov 27	month ago	year ago
218.98	219.52	210.17	189.45

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	67.150	+0.125	67.400	66.600	4,195	24,447
Feb	64.225	+0.550	64.300	63.400	2,462	26,149
Apr	65.275	+0.300	65.300	64.725	963	18,835
Jun	63.600	+0.225	63.625	63.175	498	8,053
Aug	63.075	+0.200	63.100	62.650	105	7,448
Oct	65.725	+0.275	65.750	65.350	87	5,009
Total					8,303	91,169

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	59.375	+0.225	69.550	58.875	1,502	10,464
Feb	78.775	+0.425	79.200	78.350	1,306	12,386
Apr	73.850	+0.125	74.100	73.600	456	4,959
Jun	76.300	+0.100	76.500	75.925	146	4,398
Jul	73.500	+0.100	73.500	73.150	51	1,388
Aug	69.175	+0.175	69.200	68.800	59	836
Total					3,540	35,244

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	81.375	+0.275	81.850	79.700	1,651	4,341
Mar	80.825	+0.525	80.900	78.750	175	838
May	80.250	+0.550	80.250	78.600	24	555
Jul	79.975	+0.025	79.900	78.800	32	382
Aug	76.050	+1.100	75.250	75.000	5	58
Total					1,891	6,174

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jan	Apr	Jan	Apr
1475	54	95	21	41
1500	40	82	31	51
1525	28	69	44	62
■ COPPER (Grade A) LME	Jan	Apr	Jan	Apr
2200	100	113	85	181
2250	77	95	112	212
2300	58	79	143	245
■ COFFEE LIFFE	Jan	Mar	Jan	Mar
1300	54	54	17	66
1350	24	35	37	97
1400	9	23	72	135
■ COCOA LIFFE	Mar	May	Mar	May
900	38	59	17	20
925	24	44	28	30
950	14	32	43	43
■ BRENT CRUDE IPE	Jan	Feb	Jan	Feb
2300	35	63	-	-
2350	19	48	-	-
2400	9	38	57	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$21.40-1.50w	+0.280
Brent Blend (dated)	$23.54-3.56	+0.375
Brent Blend (Jan)	$23.21-3.23	+0.345
W.T.I.	$24.30-4.35w	+0.595

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$222-224	+2
Gas Oil	$223-225	+1
Heavy Fuel Oil	$120-123	+2.5
Naphtha	$225-227	+1
Jet fuel	$252-254	
Diesel	$236-238	

■ NATURAL GAS (Pence/therm)

Bacton (Dec)	18.25-18.75

Petroleum Argus. Tel. London (0171) 359 8792

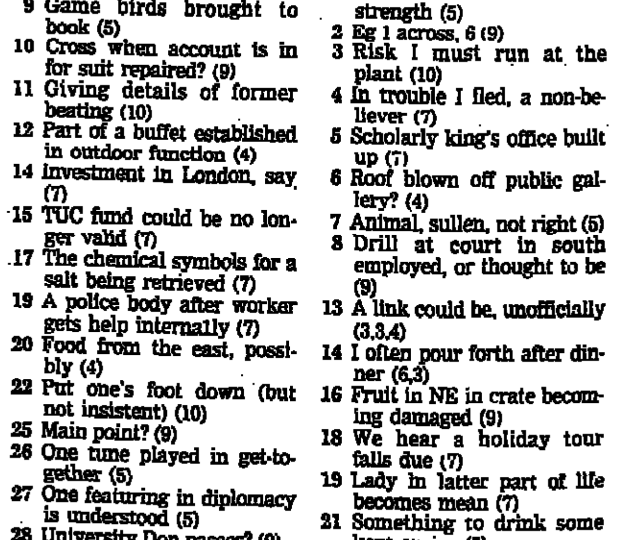
■ OTHER

Gold (per troy oz)♣	$370.85	-0.60
Silver (per troy oz)♣	471.50c	-1.00
Platinum (per troy oz.)	$373.75	-1.00
Palladium (per troy oz.)	$114.50	
Copper	116.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	14.99r	-0.08
Tin (New York)	284.50	-1.00
Cattle (live weight)	111.03p	-1.03*
Sheep (live weight)	138.47p	+2.61*
Pigs (live weight)†	93.10p	+4.26*
Lon. day sugar (raw)	$264.20	
Lon. day sugar (wte)	$308.80	-0.10
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	127.0	
Wheat (US Dark North)	Unq	
Rubber (Jan)♥	79.25p	-0.25
Rubber (Feb)♥	79.25p	-0.25
Rubber (KL RSS No1)	318.5x	-1.0
Coconut Oil (Phil)§	$765.0y	+5.0
Palm Oil (Malay.)§	517.5x	-2.5
Copra (Phil)§	495.0	
Soyabeans (US)	195.0z	+3.0
Cotton Outlook'A' Index	78.55	
Wooltops (64s Super)	393p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. w Jan x Dec v Nov/Dec y Dec/Jan♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 531 head of pigs sold.

CROSSWORD

No.9,241 Set by QUARK



ACROSS

1, 6 This is it (9,5)
9 Game birds brought to book (5)
10 Cross when account is in for suit repaired? (9)
11 Giving details of former beating (10)
12 Part of a buffet established in outdoor function (4)
14 Investment in London, say (7)
15 TUC fund could be no longer valid (7)
17 The chemical symbols for a salt being retrieved (7)
19 A police body after worker gets help internally (7)
20 Food from the east, possibly (4)
22 Put one's foot down (but not insistent) (10)
25 Main point? (9)
26 One time played in get-together (5)
27 One featuring in diplomacy is understood (5)
28 University Don passes? (9)

DOWN

1 Lie about one's moral strength (5)
2 Eg 1 across, 6 (9)
3 Risk I must run at the plant (10)
4 In trouble I fled, a non-believer (7)
5 Scholarly king's office built up (7)
6 Roof blown off public gallery? (4)
7 Animal, sullen, not right (5)
8 Drill at court in south employed, or thought to be (9)
13 A link could be, unofficially (3,3,4)
14 I often pour forth after dinner (6,3)
16 Fruit in NE in crate becoming damaged (9)
18 We hear a holiday tour falls due (7)
19 Lady in latter part of life becomes mean (7)
21 Something to drink some kept on ice (5)
23 Editor to take in employees, that's what he'll do (5)
24 A jumper's necessary gear around the north? (4)

Solution to Saturday's prize puzzle on Saturday December 14.
Solution to yesterday's prize puzzle on Monday December 16.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Fidelity Currency Funds Ltd					
Pembroke Hall, Pembroke, Bermuda					
UK Fed Advancy 0800 414181				Jersey 01534 71696	
Private Clients 0800 414191				00 352 250404220	
[illegible]				Hong Kong (852) 848 1000	
A$ Accum		A$13.251		+0.002	3.40
ASch Accum		Sch249.48		+0.02	2.10
C$ Accum		C$18.750		+0.001	2.30
DM Accum		DM38.465		+0.002	1.80
DFl Accum		Dfl31.719		+0.001	1.70
ECU Accum		Ecu19.530		+0.002	3.60
FFr Accum		FFr87.204		+0.004	2.30
HK$ Accum		HK$121.04		+0.02	4.30
Lire Accum		L23780		+6	6.30
NZ$ Accum		NZ$40.270		+0.009	8.40
Nkr Accum		NKr172.52		+0.01	3.20
S$ Accum		S$28.103		+0.002	2.60
SPta Accum		Pta2783.7		+0.4	5.60
£ Accum		£18.190		+0.002	4.90
Skr Accum		SKr121.50		+0.01	3.30
SFr Accum		SFr29.406		+0.003	0.00
US$ Accum		$23.693		+0.003	4.40
Yen Accum		Y2690.7		—	0.10

Prices for dealing December 2

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Jupiter Tyndall (Bermuda) Ltd					
PO Box HM1255, Hamilton, Bermuda				001 809 292 2790	
Jupiter Tyndall World Umbrella Fund Ltd					
Eurobond		$18.80	17.45	+0.01	3.38
Money		$14.27	14.99	+0.01	2.62
Mortgage		C$24.57	25.81	+0.04	7.12
North American		$14.83	18.88	+0.26	-
Overseas		$18.02	18.93	+0.54	-

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
M & G (Guernsey) Ltd					
Westbourne, The Grange, St Peter Port				01481 722863	
Island Global Fd	0	1012.7	1021.5	-1.1	0.9
Island Gold	0	4037.5	4279.5	—	0.136
(Accum. Units)	0	7888.7	8169.1	—	0.136
Island UK Fd	0	1021.8	1083.1	-3.3	3.45
(Accum Units)	0	2512.4	2583.1	-8.2	3.45
Prudential Fund Managers (Guernsey) Ltd					
Po Box 81, St Peter Port Guernsey				01481 707000	
Prudential Money Funds Ltd					
Managed Sterling		147.2	147.3	-0.3	4.85
Managed Dollar	5	$14.29	14.58	-0.01	4.58
Dollar Deposit		$10.03	10.04	+0.01	3.86
Rothschild Asset Management (CI) Ltd					
PO Box 242, St Peter Port, Guernsey				01481 710742/5	
Five Arrows Latin Am Bkt	5	$13.66	18.02	—	0
Five Arrows International Bond Funds					
FAIB £ Bond	3¼	£21.85	22.52	+0.02	5.44
FAIB US$ Bond	3¼	$33.55	34.47	+0.05	5.65
FAIB £ Global	3¼	£17.23	17.80	+0.01	6.09
FAIB US$ Global	3¼	$31.56	32.63	+0.03	5.2
Five Arrows International Reserves Ltd					
FAIRL £			£45.308	+0.008	4.65
FAIRL A$			A$82.369	+0.005	6.47
FAIRL C$			C$96.5	+0.008	2.27
FAIRL DFl			Dfl100.829	+0.025	1.70
FAIRL Dkr			DKr380.55	+0.089	2.42
FAIRL DM			DM86.232	+0.008	1.94
FAIRL ECU			Ecu32.034	+0.003	3.08
FAIRL BFr			BFr2045.94	+0.105	1.85
FAIRL FM F			FM389.46	+0.017	1.98
FAIRL FFr			FFr448.805	+0.027	2.25
FAIRL HK$			HK$182.29	+0.020	4.17
FAIRL Lire			L146170	+38.9	6.78
FAIRL NZ$			NZ$48.837	+0.010	8.34
FAIRL NKr F			NKr420.947	+0.031	2.67
FAIRL S$			S$87.318	+0.007	2.37
FAIRL B F			R303.582	+0.115	14.80
FAIRL Pta			Pta4513.82	+0.210	5.88
FAIRL SF			SF177.327	+0.002	0.63
FAIRL SKr			SKr203.55	+0.020	3.43
FAIRL U.S.$			$53.073	+0.007	4.32
FAIRL Yen			Y16114.80	—	0.00
FAIRL Man £			£25.114	-0.012	4.26
FAIRL Man DM			DM65.544	+0.038	1.67
FAIRL Man $			$31.541	-0.005	3.59
FAIRL Man Int			$21.613	-0.034	1.78

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BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Morgan Grenfell Investment Funds Ltd - Contd.					
Japan Small Co's		£1.170		-0.005	0.00
Japan Small Co's US$		$1.972		-0.024	-
Latin American		£1.295		-0.010	-
Latin American US$		$2.169		-0.013	-
MFS Index Linked Bond		£1.059		—	-
MFS Sterling Bond		£1.074		+0.004	-
Overseas Assets		£1.728		+0.028	-
Reserve Assets Bond		£1.0024		+0.001	6.5
Selector UK		£1.5464		-0.001	-
Selector UK US$		$2.6086		+0.003	-
US Small Company		£1.201		+0.035	-

	Selling Price	Buying Price	+ or -	Yield Gross
Baring Mutual (Ireland) Ltd				
Umbrella Fund Inc	$12.98	13.37	—	0.00
Greater America Fund '92	$169.21		+0.47	0.00
Pacific Emerging 94 A	$93.97		—	0.00
Pacific Emerging 94 B	$94.01		—	0.00
Latin America	$7.50		+0.01	0.00
Taiwan Fund NAV	$10.89		—	0.00
Berkshire KITC Growth Fund Plc				
NAV	$5.90		-0.03	-
Berkshire Korea Fund Plc				

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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LUXEMBOURG (SIB RECOGNISED)

	Init Notes Chrge	Selling Price	Buying Price	+ or -	Yield Gr's
ABN AMRO Funds (z)					
4 Rue Jean Monet, L-2180 Luxembourg 352 42494920					
Latin America Equity		$49.16	49.86	—	-
North America Equity		$96.39	96.82	—	-
Asian Tiger Equity		$64.33	64.97	—	-
Europe Equity		$76.38	76.88	—	-
Germany Equity		DM47.31	141.95	—	-
Japan Equity		$48.34	48.82	—	-
Europe Bond		$82.05	82.21	—	-
US Bond		$38.98	80.14	—	-
Global Bond		$62.03	62.19	—	-
Germany Bond B		DM110	110.28	—	-
Spain Bond		Pta0198	10221	—	-
Eastern Europe Equity F		DM7.41	181.37	—	-
China Equity F		$60.70	61.46	—	-
Switzerland Equity		SFr27.32	127.86	—	-
Abtrust Fund Mngrs Luxembourg SA (u)					
4 Boulevard Royal L 2449 Luxembourg 00 352 227001					
Abtrust Atlas Fund					
Global Cap Portfolio		$3.884		-0.009	-
United States Portfolio		$5.7879		+0.016	-
Cont Europe Portfolio		DM6.550		+0.035	-
Japan Portfolio		¥0.666		-0.003	-
Pacific Portfolio		$6.604		-0.024	-
Gold Portfolio		$5.207		+0.004	-
UK Growth of Income		£2.118		+0.002	3.61
Dollar Portfolio		$1.665		+0.002	7.05
Sterling Portfolio		£1.0079		+0.001	6.30
Fidelity Funds - Contd.					
Country Select Funds					
ASEAN		$32.20		-0.06	-
Asian Special Situations		$11.28		—	-
Australia		A$16.09		-0.03	-
Emerging Markets		$9.395		+0.010	-
European Sm Cos F		DM14.49		+0.05	-
France		FFr90.11		+0.83	-
Germany		DM22.44		+0.21	-
Hong Kong		$35.27		+0.32	-
Iberia		Pta1969		+17	-
Indonesia		$10.65		+0.01	-
Italy		L14905		+131	-
Japan Smllr Cos		Y1002		-5	-
Korea F		$7.709		-0.031	-
Latin America		$9.398		+0.018	-
Malaysia		$35.65		-0.04	-
Nordic		SKr190.2		+2.2	-
Singapore		$26.11		-0.19	-
Switzerland		SFr16.55		+0.06	-
Thailand		$27.33		-0.25	-
United Kingdom		£1.175		+0.002	-
Bond Funds					
European		Ecu11.30		+0.03	5.92
International		$1.069		+0.001	5.38
US Dollar		$5.719		+0.003	6.76
Sterling		£9.254		+0.001	7.00
Yen		Y1666		+5	2.25
Balanced					
European Balanced		DM13.09		+0.06	2.11

Prices as of November 29

Fleming Group (u)
6 Route De Treves L-2633 Senningerberg Luxembourg
00 352 34101 or 0800 860 264

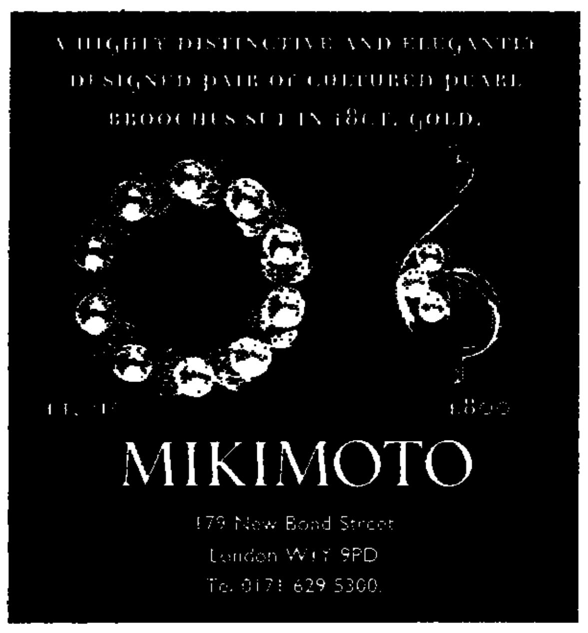
OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Guernsey) Ltd				
PO Box 121, St. Peter Port Guernsey 01481 726726				
[illegible]				



	Selling Price	Buying Price	+ or -	Yield Gross
Global Asset Management - Contd.				
[illegible]				
Jardine Fleming Unit Trusts Ltd - Contd.				
[illegible]				

OTHER OFFSHORE FUNDS

● **MANAGED FUNDS NOTES**

Prices are in pence unless otherwise indicated and those designated $ with no prefix refer to U.S. dollars. Yields % allow for all buying expenses.

Prices of certain older insurance linked plans subject to capital gains tax on sales.

(*) Funds not SIB recognised. The regulatory authorities for these funds are:

Bermuda - Bermuda Monetary Authority
Guernsey - Financial Services Commission
Ireland - Central Bank of Ireland
Isle of Man - Financial Supervision Commission
Jersey - Financial Services Department
Luxembourg - Institut Monétaire Luxembourgeois.

Initial charge - Charge made on sale of units.
Selling price - Bid or redemption price.
Buying price - Offer or issue price.

Time - The time shown alongside the fund manager's name is the time of the fund's valuation point unless indicated by one of the following symbols:

(✓) 0001 to 1100 hours.
(✦) 1101 to 1400 hours
(▲) 1401 to 1700 hours
(#) 1701 to midnight.

E Exit charge on sale of units.
C Manager's periodic charge deducted from capital.
H Historic pricing F - Forward pricing
h Distribution free of UK taxes.
p Periodic premium insurance plans.
s Single premium insurance.
u Designated as a UCITS (Undertakings for Collective Investment in Transferable Securities).
x Offered price includes all expenses except agent's commission.
z Previous day's price.
§§ Guernsey gross.
◆ Yield before Jersey tax.
† Ex-subdivision. xd - Ex-dividend.
‡ Only available to charitable bodies
◊ Yield column shows annualised rate of NAV increase.

The fund prices published in this edition are also available at the Financial Times' web site. http://www.FT.com

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	[illegible]	+1½	[illegible]	419	4,313	6.8	13.1
Bulmer (HP)	[illegible]	[illegible]	–	[illegible]	477	[illegible]	3.0	18.2
Burn St Dist	[illegible]	71	–	144	67½	42.1	6.0	75.5
Glenmorangie A	[illegible]	[illegible]	–	[illegible]	615	[illegible]	1.8	23.0
Grand Met	[illegible]	[illegible]	[illegible]	[illegible]	411	9,253	4.1	19.7
Guinness	[illegible]	[illegible]	[illegible]	[illegible]	430	[illegible]	4.3	13.8
Highland	[illegible]	[illegible]	[illegible]	376	315	449.9	3.1	18.3
5¼pc Cnv Bds	[illegible]	[illegible]	–	101½	[illegible]	–	–	–
Kirin Y	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1.0	73.0
Matthew Clark	[illegible]	[illegible]	–4	[illegible]	[illegible]	[illegible]	10.4	13.7
Merrydown	[illegible]	[illegible]	[illegible]	141	91½	10.1	6.4	12.2
Seagram $	[illegible]	[illegible]	[illegible]	[illegible]	220½	6,607	1.2	–

BANKS, MERCHANT

	Notes	Price	+ or –	52 week high	low	Mkt Cap£m	Yld Gr's	P/E
Barclays 8pc Cnv 2nd Pf	[illegible]	[illegible]	–	50½	50½	8.31	19.6	–
Cater Allen	[illegible]	[illegible]	–	482	350	[illegible]	10.1	14.8
Close Bros	[illegible]	[illegible]	–	[illegible]	307½	[illegible]	3.9	13.0
Gerrard & Nat	[illegible]	[illegible]	–1	472	[illegible]	132.0	10.8	11.0
Hambros	[illegible]	[illegible]	–1½	[illegible]	194	425.9	3.9	20.4
7½pc Cv Pf	[illegible]	[illegible]	[illegible]	119	95	141.1	8.9	–
King & Shaxson	[illegible]	[illegible]	[illegible]	197	135	49.2	6.2	15.9
Leopold J	[illegible]	485	–	485	405	24.6	5.2	18.8
Rea Brothers	[illegible]	[illegible]	–1	67	45	23.3	2.1	73.8
Schroders	[illegible]	[illegible]	+2½	[illegible]	1185	[illegible]	1.4	17.4
N/V	[illegible]	[illegible]	–	[illegible]	890	[illegible]	1.7	14.4
Singer & Fried	[illegible]	127	–	136	[illegible]	[illegible]	4.3	9.3
8¼pc Cv Ln 09/14	[illegible]	[illegible]	–	[illegible]	[illegible]	43.6	5.7	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

هكذا من الأصل

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

LIFE ASSURANCE - Cont.

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER , PACKAGING & PRINTING

PAPER , PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TEXTILES & APPAREL - Cont.

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind	g	£21⅝	+1⅛	*£34⅛	£20⅛	1,734	3.2	ϕ
Barlow		591½	-7½	£10⅝	£5⅛	1,083	2.5	ϕ
Gold Flds Prop R		133½	-¼	178	120	13.7	5.7	11.6
NK Props.		85	+3	98	80	2.61	12.6	-
SASOL	♥	645	—	710	511	3,777	1.5	-
SA Brews		£14⅞xd	-½	£28⅛	£14⅞	4,381	2.1	ϕ
Standard Bank		£22⅛	-⅜	£32⅞	£21⅞	2,947	1.5	21.1
Tiger Oats		780	—	1270	770	1,188	2.1	ϕ
Tongaat-Hulett		734½xd	-2	1247	676¼	885.4	2.3	ϕ

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ϕ Figures or report awaited
- ♥ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield excludes a special payment
F Yield based on prospectus or other official estimates for 1996-97
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1996.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a
FD (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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For readers phoning from outside UK, please dial +44 in place of the first 0.
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LONDON STOCK EXCHANGE

Shares still manacled by sterling's strength

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

A fresh burst of strength in sterling, much of which derived from a growing conviction that UK interest rates will be lifted soon, proved an effective deterrent to buyers of UK equities.

There was further unease after Abbey National hoisted its mortgage rates by a quarter of a percentage point, a move expected to be followed by other lenders.

Share prices, which looked vulnerable from the outset, came under further pressure when Wall Street opened lower, with the Dow Jones Industrial Average sliding more than 40 points in early trading.

By the close, the FTSE 100 index had recouped some of its earlier losses but nevertheless was 19.5 lower at 4,038.5.

The second tier index, the FTSE 250, held up relatively well, as good gains in the utilities sector, especially the regional electricity stocks, helped offset the damage wrought by a surprise profits warning from Racal Electronics. The 250 index settled 13.7 off at 4,414.8, while the SmallCap index eased 1.6 to 2,160.0.

A weaker-than-expected purchasing managers index for November only partly alleviated the interest rate fears, which are sure to continue until the December 11 monetary policy meeting between Mr Kenneth Clarke, the chancellor and Mr Eddie George, governor of the Bank of England.

Dealers insisted, however, that the fall in equity prices owed more to a defensive mark-down by marketmakers rather than to any weight of selling pressure.

It was also pointed out that the gilt-equity yield ratio fell below two on Friday; equities are generally regarded as looking cheap relative to gilts when the ratio slips below that level.

Turnover in London's equity market, which fell below the £1bn-mark in terms of customer business on Thursday and Friday of last week, looked almost certain to extend that trend to a third consecutive session. At the 6pm count, turnover came out at a lowly 553.8m shares.

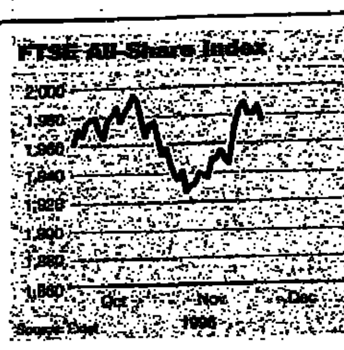
The UK equity strategy team at BZW pointed out that sterling's strength "continues to cast a sizeable shadow over prospects for the market. We would fear that analysts' forecasts still have to catch up with what sterling has done so far. Year end round-ups with companies will probably be the catalyst for another round of downgrades."

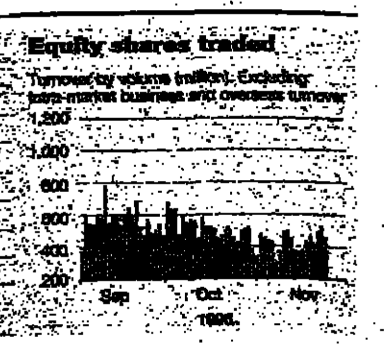
BZW added that the general industrial sectors have borne the brunt of sterling's strength, pointing out that "of the 102 general industrial stocks in the FTSE 350, 90 have underperformed in the last month."

The day's company news was largely positive, apart from the Racal warning, which saw the shares slump 18 per cent. The bad news from Racal also triggered something of a sell-off in other electronics stocks.

Scottish & Newcastle was the best Footsie performer, responding to an excellent set of interim figures accompanied by news of a good start to the second half.

Abbey Life and Lloyds TSB were among the biggest Footsie winners as the market warmed to the prospect of higher margins.





Indices and ratios

FTSE 100	4038.5	-19.5	FT 30	2806.1	-20.9
FTSE 250	4414.8	-13.7	FTSE Non-Fins p/e	17.96	18.09
FTSE 350	2005.2	-9.0	FTSE 100 Fut Dec	4053.0	-13.0
FTSE All-Share	1976.89	-8.28	10 yr Gilt yield	7.32	7.35
FTSE All-Share yield	3.81	3.79	Long gilt/equity yld ratio	1.96	1.98

Best performing sectors

1 Breweries: Pubs & Rest ....+1.3
2 Property ....+0.7
3 Water ....+0.6
4 Textiles & Apparel ....+0.5
5 Health Care ....+0.3

Worst performing sectors

1 Electronic & Elect Equip ....-2.1
2 Extractive Industries ....-1.5
3 Engineering: Vehicles ....-1.1
4 Insurance ....-1.0
5 Diversified Industrials ....-1.0

Racal warns on profits

By Joel Kibazo and Peter John

News of a profits warning from Racal Electronics, just three days before it was set to announce interim figures, hit the market like a bombshell and sent the company's shares plunging.

Analysts had expected the electronics and defence group to unveil improved half-time profits of around £36m on Thursday. Instead, Racal said it expected first half profits to be £21m, down from £31.9m at the same stage a year earlier. Racal blamed a reduction in order intakes in its Radio Group division.

The group is bringing its results forward to today as well as an analysts' meeting due to be held on Thursday, although one market specialist said, "the analysts' meeting is irrelevant. What we want to see is how Racal performs from now on."

Shares in the group tumbled as dealers rushed to sell the stock and, at the day's low, they were down 55 at 220p.

Bargain hunting and a feeling in some quarters that the retreat had been overdone helped the stock crawl off the lows in the afternoon. However, the shares remained the worst performers in the FTSE 250 index, having fallen more than 18 per cent. They closed 50 off at 225p, with volume of 7.8m making it the most heavily traded stock in the FTSE 250.

Mr Mike Styles at Credit Lyonnais Laing said the retreat was overdone: "There is great value in Racal at these levels."

Strong signs that the mortgage price war is over, combined with a weighty broker recommendation, gave a boost to the big quoted mortgage lenders.

The decision by Abbey National to increase its key lending rates by a quarter of a percentage point comes at a time when demand for mortgages is rocketing.

So analysts believe downside from competitive pressure is limited. Ms Kathryn Newton of UBS said: "Abbey has had a torrid time this year but we feel all the bad news on mortgages and mortgage pricing is already in the price."

UBS also argued that data stretching back to the late 1980s showed that the banking sector in general, and Abbey in particular, had lagged the Halifax UK house price index by one year and had just begun to respond to the latest housing recovery.

Also, in response to Abbey's latest move, the broker yesterday included the stock in its Euro-15, the list of its principal high profile recommendations throughout Europe. The shares improved 12¼ to 709p.

The mortgage news also boosted Lloyds TSB, which touched an intra-day peak and closed 7 higher at 419½p, even though some specialists believe the rating is now becoming demanding.

Media stocks took a hit as one of market's highly-rated sector teams produced research arguing that the good times might be over.

NatWest Securities says that, while the sector has outperformed the broad market by 55 per cent over the past five years, to become the UK's fourth largest equity sector, prospects for growth are slowing.

And, with the launch of Channel 5, the start of digital multi-channel television, and the prospect of what NatWest calls "media fratricide" on the horizon, there could be an unsettling revolution.

"It's going to be an exciting year... new products, corporate squabbles, bid battles, demergers and the ongoing pursuit of control. However, for the investor, it may well be easiest to watch without being over-exposed," says NatWest.

NatWest turned seller on Carlton Communications and downgraded Reuters Holdings and Mirror Group to a "hold" from "add".

Carlton fell 4 to 498p although there was some support from Panmure Gordon which has it as a trading buy ahead of figures tomorrow. Reuters dipped 6 to 716½p and Mirror fell 3¼ to 227½p. Emap, which is NatWest's sole buy recommendation, lifted 5 to 735p.

Meanwhile, EMI improved 4 to 1376½p after one Sunday newspaper revisited the speculation that MCA of the US is interested in making an offer.

Leisure and drinks group Scottish & Newcastle was the best performer in the FTSE 100 after it revealed interim figures at the top end of market expectations. The shares put on 22 to 661p and helped boost several other stocks in the sector. They included Bass, which reports interims tomorrow. Shares in the group hardened 10½ to 794p, while Whitbread improved 5 to 771½p.

With the quarterly meeting to decide the new constituents of the FTSE indices only a week away, brokers are beginning to look seriously at the "runners and riders".

Positions have largely been taken over the potential FTSE 100 stocks. Pilkington, which was 118th by capitalisation at the close of trading last week – and thus poised to drop out of the Footsie – actually recovered 3¼ to 152p. The shares were helped by vague hopes of a rate cut in Germany, where Pilkington has significant interests.

However, institutional investors are still adjusting weightings at the lower end of the FTSE 250, where the principal entry candidates are Biocompatibles, Manchester United and PizzaExpress. Biocompatibles, the most likely candidate, ran into muted profit-taking and ended 1½ off at 737p.

But Manchester United gained 15 to 573p and PizzaExpress 3¼ to 531p.

Meanwhile, UBS has taken a longer term view and examined some of the smaller growth stocks which could move in the mid cap index in the near future. In research published yesterday, the broker cites Capita, the support services group, and Mayflower, the specialist engineer. Capita gained 3 to 469½p while Mayflower was firmer at 141¼p.

Southern Electric moved up 19½ to 721p in a strong sector, underpinned by persistent bid speculation.

AIM stock ClubPartners fell 6 to 7½p on news it had received approaches which may result in an offer at a discount to the market price.

Bodycote International rose 20 to 727½p after a "buy" recommendation in the weekend press.

H Young Holdings, the marketing and distribution company, fell 6½ to 125p. The group said it planned to buy a bicycle specialist for £6.86m and make a placing and one-for-three rights issue at 116p a share.

Semple Cochrane, the engineering services group, came to the market at a healthy premium to its placing price of 180p a share and closed unchanged at 218½p.

FT 30 INDEX

	Dec 2	Nov 29	Nov 28	Nov 27	Nov 26	Yr ago	*High	*Low
FT 30	2806.1	2827.0	2824.2	2820.4	2833.0	2660.0	2885.2	2668.8
Ord. div. yield	4.04	4.02	4.02	4.02	4.01	4.04	4.22	3.76
P/E ratio net	17.06	17.16	17.18	17.16	17.21	15.91	17.46	15.80
P/E ratio nil	16.90	17.00	17.01	17.00	17.05	15.73	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2822.9	2816.0	2817.2	2816.9	2812.5	2813.6	2812.9	2808.1	2804.7	2823.4	2802.3

	Dec 2	Nov 29	Nov 28	Nov 27	Nov 26	Yr ago
SEAQ bargains	36,228	35,610	33,584	37,770	44,190	31,097
Equity turnover (£m)†	-	972.5	971.4	1167.5	1278.6	1534.7
Equity bargains†	-	23,006	22,149	24,117	29,325	40,006
Shares traded (mil)†	-	436.7	475.1	533.0	501.8	636.6

†Excluding intra-market business and overseas turnover.

	Dec 2	Nov 29	Nov 28	Nov 27	Nov 26	Yr ago	*High	*Low
FTSE AIM	1038.20	1038.00	1035.20	1036.40	1037.50	-	1140.40	965.70

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■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	482	Total Highs	117	Total contracts	25,489
Total Falls	718	Total Lows	135	Calls	9,024
Same	1,385			Puts	16,465

Dec 2 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4065.0	4053.0	-16.0	4065.0	4039.0	10069	54341
Mar	4080.0	4073.5	-15.5	4083.0	4058.0	2017	9939
Jun		4092.0	-17.0			0	1813

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4428.0	4430.0	-10.0	4435.0	4428.0	120	3510
Mar	4485.0	4480.0	-11.0	4485.0	4485.0	80	1840

■ FTSE 100 INDEX OPTION (LIFFE) (*4037) £10 per full index point

	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P	4200 C	4200 P
Dec	209½	3½	161½	5½	114½	9½	72	18	38	36	15½	67	4	117	1	167
Jan	227½	10	183½	16½	141½	24½	102	38	68½	56½	42	83	23½	119½	11	167
Feb	249½	22	206½	30	168	41½	132½	57	100	75½	73	100	49	130½	31½	169½
Mar	260½	38	219½	47½	183½	61½	147	77	115½	96	88½	120	65	149½	45½	183½
Jun†			271½	88			207	123			152	166½			194	222

Calls 3,544 Puts 5,493

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P	4225 C	4225 P
Dec	181	3½	134	6½	90½	12½	53	25	25½	47½	10	81½	3	124	½	172
Jan	205	14	161	20	119½	28½	82	41	51½	60½	30½	89½	16	125	7½	166½
Feb	233	27	191	35	152	46	115½	59½	84	78	57½	101½	39½	132½	24	169
Mar	237	42	198½	52½	169	66	130	82½	100½	102	76½	127½	55½	155	39	187½
Jun†			258½	95			193	128½			140	172			96½	225

Calls 1,912 Puts 6,496 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	16.2	100½	94½	†Recycling Servs	100		W3.2	-	4.0	-
§125	F.P.	33.7	139½	130½	Scot Highland Ht	138½		R3.0	2.4	2.7	13.8
§	F.P.	8.06	110½	110½	Second St David	110½		-	-	-	-
§	F.P.	1.02	10½	9½	Do Residual Cap	9½		-	-	-	-
§	F.P.	10.9	184¾	183	Do Zero Div Prf	184¾		-	-	-	-
§180	F.P.	17.0	218½	216½	Semple Cochrane	218½		-	-	-	20.5
3	F.P.	25.8	3¾	3¾	†Snakeboard	3¾		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 29	% chg on day	Nov 28	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1872.25	-0.7	1885.14	1889.47	1.64	-	2529.73	1846.24
■ Regional indices								
Africa (14)	2213.37	-0.6	2227.82	2420.75	3.51	31.48	3553.86	2213.37
Australasia (6)	2168.56	+1.4	2140.01	2410.96	2.65	21.02	2927.34	2005.75
North America (12)	1738.96	-1.1	1759.09	1683.12	0.75	65.81	2168.39	1648.45

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Dec 2	Day's chge%	Nov 29	Nov 28	Nov 27	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4038.5	-0.5	4058.0	4050.2	4049.2	3669.7	3.93	2.03	15.66	165.83	1686.22
FTSE 250	4414.8	-0.3	4428.5	4416.7	4412.0	3969.1	3.56	1.49	23.51	166.90	1803.39
FTSE 250 ex IT	4453.9	-0.3	4467.8	4455.8	4449.9	3998.5	3.66	1.52	22.54	175.10	1823.42
FTSE 350	2005.2	-0.4	2014.2	2010.0	2009.1	1817.9	3.86	1.92	16.88	81.00	1710.03
FTSE 350 Higher Yield	1910.8	-0.4	1918.4	1916.2	1920.1	1812.8	5.14	1.79	13.54	101.79	1373.03
FTSE 350 Lower Yield	2106.9	-0.5	2117.3	2111.0	2105.5	1827.9	2.70	2.14	21.65	60.77	1478.56
FTSE SmallCap	2159.98	-0.1	2161.56	2158.63	2162.67	1954.26	3.19	1.57	24.85	66.37	1800.91
FTSE SmallCap ex IT	2160.69	....	2161.49	2158.95	2162.62	1934.57	3.41	1.64	22.37	70.26	1814.64
FTSE All-Share	1976.89	-0.4	1985.17	1981.13	1980.62	1791.78	3.81	1.90	17.28	78.43	1711.45

■ FTSE Actuaries Industry Sectors

	Dec 2	Day's chge%	Nov 29	Nov 28	Nov 27	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3865.24	-0.8	3895.41	3881.17	3882.57	3183.22	3.69	1.71	19.83	142.73	1694.19
12 Extractive Industries(6)	4221.67	-1.5	4284.84	4226.07	4155.53	4266.20	3.84	2.66	12.23	162.00	1258.26
15 Oil, Integrated(3)	3979.50	-0.7	4007.93	3999.26	4011.28	3218.23	3.88	1.55	20.77	154.36	1792.32
16 Oil Exploration & Prod(14)	2940.58	-0.3	2949.84	2943.80	2946.05	1962.79	1.79	1.72	40.51	52.93	1782.37
20 GEN INDUSTRIALS(275)	1971.47	-0.8	1987.02	1988.65	1988.71	1931.98	4.35	1.67	17.15	80.70	1100.64
21 Building & Construction(34)	1152.32	-0.4	1157.36	1158.48	1162.90	1011.55	3.67	1.47	23.22	39.95	982.23
22 Building Matls & Merchs(29)	1796.20	-0.1	1798.82	1786.94	1788.21	1771.48	4.31	1.40	20.71	75.00	926.85
23 Chemicals(25)	2350.24	-0.5	2361.77	2373.14	2382.71	2358.50	4.39	1.44	19.76	101.33	1140.18
24 Diversified Industrials(19)	1382.60	-1.0	1396.67	1398.21	1397.84	1748.61	7.36	1.61	10.56	90.53	797.75
25 Electronic & Elect Equip(36)	2231.74	-2.1	2278.53	2296.13	2307.59	2089.30	3.51	1.48	24.00	84.63	1177.23
26 Engineering(71)	2580.77	-0.7	2597.89	2603.85	2600.12	2160.16	3.18	2.28	17.24	78.11	1594.68
27 Engineering, Vehicles(14)	3277.44	-1.1	3313.39	3283.24	3246.99	2494.82	3.29	1.72	22.13	103.02	1729.91
28 Paper, Pckg & Printing(28)	2504.95	-0.3	2513.01	2511.23	2497.97	2435.62	4.14	1.82	16.61	97.81	1065.77
29 Textiles & Apparel(19)	1081.10	+0.5	1075.64	1081.48	1084.36	1470.56	6.60	1.16	16.34	69.33	683.21
30 CONSUMER GOODS(82)	3783.11	-0.7	3788.94	3805.43	3810.08	3555.02	3.86	1.93	16.80	144.40	1422.10
32 Alcoholic Beverages(8)	2701.54	-0.7	2719.84	2730.08	2726.35	2784.59	4.70	1.70	15.62	126.04	1000.29
33 Food Producers(25)	2654.81	-0.3	2662.81	2660.96	2663.45	2537.51	4.12	1.77	17.16	99.90	1224.73
34 Household Goods(15)	2594.28	....	2594.03	2613.75	2617.10	2607.06	3.94	2.26	14.05	191.20	1046.61
36 Health Care(18)	2021.26	+0.3	2014.92	2004.89	2001.31	1944.41	2.98	1.93	21.74	55.92	1247.36
37 Pharmaceuticals(14)	5786.08	-1.0	5843.15	5904.39	5927.67	5028.38	2.96	2.01	21.00	172.19	1999.34
38 Tobacco(2)	3946.14	-0.6	3970.20	3924.75	3900.01	4692.87	6.57	2.13	8.93	262.07	1016.20
40 SERVICES(252)	2609.49	-0.3	2617.09	2606.41	2593.58	2213.14	2.88	1.97	21.99	80.37	1380.76
41 Distributors(30)	2910.55	-0.2	2917.37	2912.89	2889.34	2517.92	2.96	2.02	20.86	87.46	1092.78
42 Leisure & Hotels(25)	3199.48	-0.4	3211.79	3217.40	3199.42	2625.33	2.80	1.97	22.68	173.45	1740.12
43 Media(44)	4264.04	-0.5	4285.31	4287.53	4286.86	3666.97	2.15	2.10	27.61	93.63	1561.35
44 Retailers, Food(14)	2073.08	-0.5	2083.34	2069.79	2047.40	1964.85	3.61	2.26	14.42	77.71	1349.83
45 Retailers, General(45)	2127.53	-0.7	2141.47	2110.32	2092.74	1885.99	3.08	2.05	19.80	72.66	1242.22
47 Breweries, Pubs & Rest.(21)	3226.90	+1.3	3185.62	3169.27	3177.04	2744.27	3.25	2.04	18.86	74.44	1567.77
48 Support Services(30)	2701.91	-0.3	2709.44	2704.37	2703.38	1859.24	1.84	2.21	30.86	49.33	1736.01
49 Transport(23)	2605.29	-0.6	2619.19	2616.85	2598.03	2193.17	3.70	1.21	27.91	93.48	1111.81

THE DAVID THOMAS PRIZE

David Thomas was a Financial Times journalist killed on assignment in Kuwait in April 1991. Before joining the FT he had worked for, among others, the Trades Union Congress.

His life was characterised by original and radical thinking coupled with a search for new subjects and orthodoxies to challenge, particularly in the fields of industrial policy, third world development and the environment.

In his memory a prize has been established to provide an annual study/travel grant to enable the recipient to take a career break.

In this, the sixth year of the prize, the theme is: "Home Truths from Abroad": A policy idea from outside the UK for the next British Prime Minister. The 1997 prize will be worth not less than £3,000.

Applicants, aged over 21, of any nationality, should submit a typed entry of up to 800 words in English, together with a brief c.v. and a proposal outlining how the award would be used to explore the theme further. Please keep David Thomas's interests in mind when writing both the entry and the proposal.

The award winner will be required to write a 1500 to 2000 word essay at the end of the study period. The essay will be considered for publication in the FT.

CLOSING DATE JANUARY 5 1997

APPLICATIONS TO:
ROBIN PAULEY, MANAGING EDITOR
THE FINANCIAL TIMES (Dept DTP)
NUMBER ONE SOUTHWARK BRIDGE
LONDON SE1 9HL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	735	493½	+1
ASDA Group†	13,200	118	-½
Abbey National†	2,800	709	+12½
Albert Fisher	1,300	42	
Allied Domecq†	1,900	435xd	+1½

FTSE INTERNATIONAL

هكذا من الأصل

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

Industrials¥	886.63	884.49	885.96	886.90 (25/11)	702.07 (15/1)	886.90 (25/11/96)	3.52 (30/6/32)
Financial	84.93	84.58	84.44	84.93 (29/11)	58.67 (10/1)	84.93 (29/11/96)	7.13 (4/9/74)
NYSE Comp.	398.43	397.48	397.98	398.88 (25/11)	321.41 (10/1)	398.88 (25/11/96)	4.64 (25/4/42)
Amex Mkt Val	591.48	588.64	588.33	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Cmp	1292.61	1287.32	1281.20	1292.61 (29/11)	988.57 (15/1)	1292.61 (29/11/96)	54.87 (3/10/74)

■ RATIOS

	Nov 29	Nov 22	Nov 15	Year ago
Dow Jones Ind. Div. Yield	2.01	2.02	2.05	2.30
	Nov 27	Nov 20	Nov 13	Year ago
S & P Ind. Div. yield	1.81	1.84	1.87	2.00
S & P Ind. P/E ratio	23.30	22.99	22.64	18.64

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Unisys	5,800,300	7⅞	+1⅛
Pepsico	2,481,300	29⅛	-⅜
Barrick Gld	2,257,800	30	+½
AT & T	2,168,500	39¼	+⅛
Micron Tech	1,981,500	33⅞	-⅛
EMC	1,291,400	32¼	+2¾
Ph Morris	1,276,900	103⅛	-¾
Texas Inst	1,158,500	63⅞	—
McD Doug	1,133,400	52⅞	+⅜
Tricsc	1,082,600	20⅞	+½

■ TRADING ACTIVITY

● Volume (millions)

	Nov 29	Nov 27	Nov 26
New York SE	151.372	361.580	538.501
Amex	11.022	21.446	27.006
NASDAQ	211.289	504.911	641.150
NYSE			
Issues Traded	3,154	3,325	3,328
Rises	1,205	1,343	1,143
Falls	934	1,136	1,355
Unchanged	915	846	830
New Highs	132	169	286
New Lows	10	25	33

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	758.05	754.25	-4.00	759.00	752.80	23,325	184,102

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■ TOKYO - MOST ACTIVE STOCKS: Monday, December 2, 1996

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Keisei Elect Ry	5.2m	897	-64	Sakura Bank	2.6m	1000	-40
Nippon Steel Cp	3.4m	333	-11	Toyota Motor	2.5m	3030	-80
Honda Motor	3.0m	3290	-70	Matsushita E Ind	2.4m	1910	-60
Mitsubishi Hvy	2.7m	910	-20	Toshiba Corp	2.3m	729	-4
Hitachi	2.6m	1050	-10	NEC Corp	2.2m	1360	-20

4 pm close December 2

NEW YORK STOCK EXCHANGE PRICES

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

4 pm close December 2

NYSE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
Continued from previous page										
73⅛	50½	SchrPl	1.32	1.9	22	5884	70⅝	69¾	70¾	-1
[illegible]										

7⅛	6½	Zweig	0.73	10.2		88	6¾	7⅛	7⅛	-⅛
22⅞	15⅛	Zeno	0.12	0.6	18	19	19⅝	19½	19⅝	
29	18½	Zeon Ind	0.40	1.4	31	270	28⅝	28½	28⅝	
11⅝	10½	Zweig Fund	1.08	9.8		130	11	10⅞	11	+⅛
9	8¼	Zweig Total	0.84	10.0		343	8½	8⅜	8⅜	-⅛

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX PRICES

4 pm close December 2

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
NY TimA x	0.57	57	1791	u38⅝	37¼	38⅝	+1¼
NMR		6	58	10¼	10¼	10¼	+⅛
Pegasus G	0.10	91	7653	9⅜	d9	9⅛	-¼
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close December 2

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

US leaders retreat on profit-taking

AMERICAS

US blue chips retreated slightly from their recent highs in early trading but smaller capitalisation stocks posted gains, led by the technology sector, *writes John Authers in New York.*

The Dow Jones Industrial Average of 30 large stocks slipped back below the 6,500 mark, standing at 6,482.57 at the end of the morning, down 39.13 for the day, having fallen lower. The broader Standard & Poors 500 also fell, down 3.78 to 753.24. Some of this was due to profit-taking after last week's abnormally high activity.

However the Nasdaq, which covers generally smaller companies and has an increasingly heavy technology weighting, gained very slightly, and was up 0.75 at 1,293.36.

Several indicators, including the latest National Association of Purchasing Management index, construction spending figures, and anecdotal evidence of heavy spending in the Thanksgiving weekend sales, suggested that the economy was growing slightly faster than forecast.

But these figures were not worrying enough to stimulate significant selling, with analysts saying that they were consistent with non-inflationary growth.

There was little corporate news to push the market in the aftermath of the Thanksgiving holiday, and there were few wide moves. The biggest exception was America Online, the largest US internet provider, which gained $3⅞ to $39⅝ by midday, a gain which dealers attributed to a positive research note from Lehman Brothers.

AOL has been one of the most closely watched on the market for several months. It still has more subscribers than any other on-line or internet service, but the market has been concerned by the possibility that it will start to lose its new subscribers to the growing competition from direct internet service providers. The speculation was that the company, in the middle of a heavy promotional campaign, had managed a strong gain in subscribers for November.

IBM also regained its recent strength, up $2⅝ at $161⅞. Other technology stocks to enjoy a strong day included Iomega, up $⅝ to $23⅛, and Texas Instruments, up $1⅞ at $65⅞.

TORONTO followed Wall Street lower, ending the morning session with the 300 composite index off more than half a percentage point. At noon, the index was down 39.30 at 5,977.37.

Stock declines led advances by about three-to-two with 11 of the index's 14 sub-groups deep into negative territory. Gold shares were 1.8 per cent down and banking was off 1.1 per cent.

Among blue-chips, Barrick Gold fell 60 cents to C$39.90, Royal Bank of Canada retreated 70 cents to C$49.15 and Toronto-Dominion Bank ended C$1 lower at C$35.

Alcan Aluminium dipped 10 cents to C$47.90 and Canadian Pacific was 5 cents lower at C$37.35.

Caracas shows signs of life

Having steadfastly marked time on Friday, CARACAS showed signs of life. At midsession, the IBC index had racked up a gain of 20.49 to 6,168.63 to underpin talk of a year-end rally.

MEXICO CITY continued to move higher but the pace was pedestrian. The retail sector attracted buyers but overall volumes were described as very thin. At midsession, the IPC index was up 0.54 at 3,291.15.

SAO PAULO made modest progress, the Bovespa index adding 143 to 66,647 at midsession. Banespa, the state bank which surged almost 25 per cent on Friday, was little changed at 6.00 reais.

More new highs, but carmakers displease

EUROPE

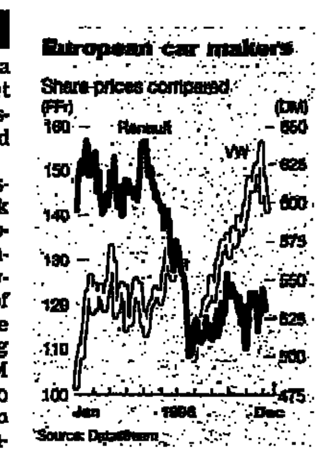
Carmakers, currencies and a volatile US equity market gave bourses a day of dismay in some quarters and happy affluence in others.

Among automotive industry leaders, Volkswagen took another tumble on the ongoing legal dispute with General Motors of the US, following Friday's resignation of Mr José Ignacio López, the group's former purchasing manager and a former GM employee; Renault, also weak, reacted to a drop in French car sales for November; and Volvo failed to respond to a 35 per cent jump in Swedish registrations.

However, Friday's strength on Wall Street, combined with another climb in the dollar, gave broad markets a good start. Seven reached new all-time highs although the Dow, by the late American morning, had recovered only a part of its early, near-50 point drop.

FRANKFURT peaked again, but only just. The Dax index traded in a narrow range and in thin volume, closing 4.62 higher at 2,853.46.

Turnover fell from DM13.8bn to DM9.2bn but, within that, business in VW moved up from DM897m to DM1.57bn.



VW shares fell another DM25.75 or 4.2 per cent to DM593 in spite of news of a capital spending increase over the next five years and the naming of a number of new top executives, including a replacement for Mr López.

Mr John Lawson, automotive industry analyst at Salomon Brothers, said that the capital investment plans were a "business as usual" declaration from VW, which was bidding strongly for increased market share both at home and abroad, but that the prospect of a legal battle with General Motors was casting a cloud over otherwise good prospects.

Elsewhere, key cyclicals rose on the dollar. Degussa put on DM16 at DM653.05 on an upbeat view of 1996-97 prospects. Bankgesellschaft Berlin, which hit a 1996 low last Friday after a one-off provision for credit risks, recovered DM3.30 or 13.5 per cent to DM27.80 as BHF Bank moved from "hold" to "buy" on the stock.

PARIS edged ahead in spite of a sharp fall for the index heavyweight, Renault, which lost more than 3 per cent on news of weak car demand in France.

French car registrations in November fell 21.7 per cent. Traders had been braced for bad news but the November outturn was worse than expected.

Sentiment was aided by talk of export growth following another bad day for the franc, but this was not enough to stop a significant wave of selling. The shares ended FFr4.10 lower at FFr119.90.

Peugeot, which does not have Renault's exposure to the loss-making truck market, proved more resilient, dipping FFr4 to FFr638. Michelin, the tyremaker, actually gained ground, improving FFr3.50 to FFr271.40.

Up FFr31 on Friday, Saint Louis added a further FFr5 to FFr1,330 on the sale of a 34.5 per cent stake in Panzalim, a pasta offshoot. Danone, the buyer, eased FFr4 to FFr765.

Total put on FFr6.90 to FFr424.60 ahead of tomorrow's press conference.

Salomon, the sports equipment maker, tumbled FFr22.40 to FFr437.60 after dull interim earnings and a forecast of no real improvement for the full year.

Trailing for much of the session, the CAC 40 finally closed at a new high for the year of 2,318.63, up 2.97.

Other all time highs included:

- STOCKHOLM, where the Affärsvärlden general index rose just 2.1 to 2,314.4. Strength in the drugs company, Astra, and a 2.1 per cent gain in the forestry sector offset weakness in Ericsson, SKr1.50 lower at SKr205.50, and in Volvo, SKr1 lower at SKr146.50 – although Sweden's official statistics bureau said that the country's new car registrations rose by 35 per cent in November;
- BRUSSELS, which also got there by a whisker with the Bel-20 index 0.50 better at 1,897.74. Here, the investment company, Cobepa, was the star performer with a climb of BFr70 or 6 per cent to BFr1,230 after press interviews about its recent restructuring, and a potentially profitable aftermath;
- MADRID, whose electrical utilities gave the market a platform on sensitivity to lower interest rates, Iberdrola rising Pta40 to Pta1,535 and Union Fenosa Pta34 to Pta1,000 as the general index closed 1.54 higher at 405.72 in turnover of some Pta70bn;
- HELSINKI, another forestry sector beneficiary. The Hex index, covering the broad market, was up a percentage point, 24.93 better at 2,430.88. Forestries, extending a trend which began in Sweden last Friday, closed another 1.6 per cent to the good;
- OSLO, which featured a 5.5 per cent gain in the metals producer, Elkem, to NKr105.50 following upward adjustments in several analysts' recommendations, and which saw Norsk Hydro NKr4.50 higher at NKr328 as the total index peaked 10.10 higher at 939.68;
- ISTANBUL, at a sixth consecutive record high of 92,134.21, up 375.30.

AMSTERDAM traded narrowly for most of the day with investors sidelined as they watched developments in the dollar and on Wall Street. The AEX index ended off 3.82 at 627.24.

Internationals reflected the mixed overall trend. KLM added 20 cents to Fl44.70. Philips came off 80 cents to Fl 68.90.

Beter Bed, the bedding retailer, made a steady debut, moving up to Fl30.60 from a flotation price of Fl 28.

ZURICH reacted to the weekend restructuring in the Swiss utility sector with Electrowatt down SFr37 or 7 per cent at SFr486 and Motor Columbus by SFr210 or 7.7 per cent at SFr2,520, following disappointment that the two had not been merged into a bigger energy group. The SMI index fell 28.5 to 3,874.0.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

THE EUROPEAN SERIES

Dec 2	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1877.49	1878.81	1880.70	1880.15	1880.81	1880.85	1877.18	1877.85
FTSE Eurotrack 200	1926.92	1928.33	1929.60	1927.42	1927.70	1927.76	1923.70	1923.76

	Nov 29	Nov 28	Nov 27	Nov 26	Nov 25
FTSE Eurotrack 100	1867.70	1850.61	1846.94	1858.19	1853.57
FTSE Eurotrack 200	1920.27	1907.35	1900.73	1915.59	1902.73

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Tokyo off 1.6% as long positions are unwound

ASIA PACIFIC

Profit-taking in international blue chips prompted TOKYO dealers to unwind long positions as the Nikkei average fell below the 21,000 level. More than 160 issues marked new lows for the year, *writes Gwen Robinson*.

The 225 index dropped 345.67 or 1.6 per cent to 20,674.69, closing at its day's low after a high of 21,067.68. Volume thinned to an estimated 224m shares against Friday's 292m. Declines led advances by 856 to 225, with 171 unchanged.

A sharp decline in index futures sparked a flurry of selling in the afternoon, as arbitrageurs moved to unwind long positions in stock index futures to cash in on surging bond prices.

The Topix index of all first-section stocks shed 20.61 to 1,542.19 and the capital weighted Nikkei 300 was down 4.31 at 291.25. In London, the ISE/Nikkei 50 index was up 4.03 at 1453.13.

Blue chip losers included Toyota, which fell Y80 to Y3,030, and TDK, off Y80 to Y7,260. Sony declined Y60 to Y7,230, Honda Y70 to Y3,290 and Matsushita Electric Industrial Y60 to Y1,910.

Blue chip pharmaceuticals, however, resisted the downward trend. Among pharmaceutical issues to hit new highs for the year, Takeda Chemical Industries added Y40 to Y2,270 and Sankyo Y50 to Y3,100.

NTT was active amid growing investor interest in reports that Japan's Posts and Telecommunications Ministry is close to finalising its plan to split the country's largest telecommunications carrier into separate units including long-distance services and regional providers. But the issue ended Y1,000 lower at Y811,000 after hitting an intra-day high of Y819,000. Other telecoms also declined, with DDI down Y10,000 to Y805,000 and Japan Telecom by Y10,000 to Y2.7m.

Construction companies continued to suffer from concerns about their financial health, particularly medium-sized general contractors such as Sata Construction, which fell Y25 to Y495.

In Osaka, the OSE average fell 238.67 to 21,141.30 in volume of 53.3m shares.

HONG KONG got a lift from Friday's rise in US long bonds, with the Hang Seng index gaining 123.63 at 13,517.56 in turnover of HK$7.38bn. Property stocks continued to gain, with Henderson Land putting on HK$1.75 at HK$79.50 and Cheung Kong HK$1.50 at HK$69.50.

There was vocal support for Chinese companies, with the return of Hong Kong to China in mid-1997 increasingly seen as an asset.

However, H-shares, or Hong Kong quoted shares in Chinese stocks, were largely unchanged. In China itself, SHENZHEN B shares soared 10.5 per cent to a 1996 closing high in heavy trading. The B index, formally restricted to foreign shareholders, closed 14.97 higher at 157.68, up 78 per cent since November 14, as turnover climbed from HK$349m to HK$564.2m.

Hopes that the Chinese government would lift the shareholding restrictions remained the spur. However, one broker said that, because of the small size of the B market, some shares were being manipulated: Changan Automobile soared HK$1.04 or 27.7 per cent to HK$4.80 in 16.3m shares due to speculative demand by institutions.

SHANGHAI took heart, with the B share index climbing 2.693 or 5 per cent to a year's high of 56.114. The switch here was that the domestically oriented A share index surged 108.009 or 9.9 per cent to 1,194.090 – due, said brokers, to an inflow of funds from Shenzhen.

BOMBAY gave up early gains to finish with the BSE index down 39.07 or 1.35 per cent at 2,851.43. New regulations on short selling, which take effect this week, were said to have sparked the shakeout.

Traders were hard hit, partly by worries about a prolonged economic slowdown. Bajaj Auto fell Rs51.10 to Rs793 and Telco Rs22.50 to Rs294.

KARACHI ended sharply down on what dealers described as heavy position-squaring by small investors. The 100-share index fell 21.83 or 1.5 per cent to 1,464.50.

TAIPEI extended Saturday's 0.9 per cent recovery with the weighted index up another 156.75 or 2.3 per cent at 6,982.81.

Buying focused on stocks related to the Formosa group, the big conglomerate. Nan Ya Plastics advanced by the daily 7 per cent limit to T$69. Formosa Taffeta and Formosa Plastics were both limit up at T$33.70 and T$73 respectively.

BANGKOK closed lower in thin trade following the postponement of the November inflation data. The SET index declined for the third consecutive trading day, easing 5.34 to 920.63.

The swearing in of the new cabinet at the weekend was given as the official reason for the delay to November inflation figures, initially scheduled for release yesterday.

WELLINGTON closed higher on lower money market rates and hopes that a new coalition government could shortly be agreed. The 40 capital index closed up 19.47 or 0.83 per cent at 2,367.89. NZ Telecom added 4 cents to NZ$7.45 with 4.8m of its 5.8m shares traded.

DHAKA sank below 3,000 as it followed Sunday's 1.7 per cent fall with a drop of 3 per cent. The DSE index closed another 91.26 lower at 2,921.7 in turnover of Tk43m, on stop-loss, small investor selling.

Weak bullion slows Jo'burg

Shares in Johannesburg moved lower with a soft bullion price and disappointing trade figures keeping sentiment on a tight rein. The overall index ended off 4.7 at 6,709.2. Industrials dipped 4.7 to 7,992.8 and golds 0.7 to 1,523.4.

Vaal Reefs fell R1 to R320 and Kloof lost 45 cents to R37.35. Among industrials, South African Breweries gained 75 cents to R117 and Remgro, helped by solid interim results, put on 70 cents to R42. Amic came off R1.25 to R168.50.

MARKETS IN PERSPECTIVE

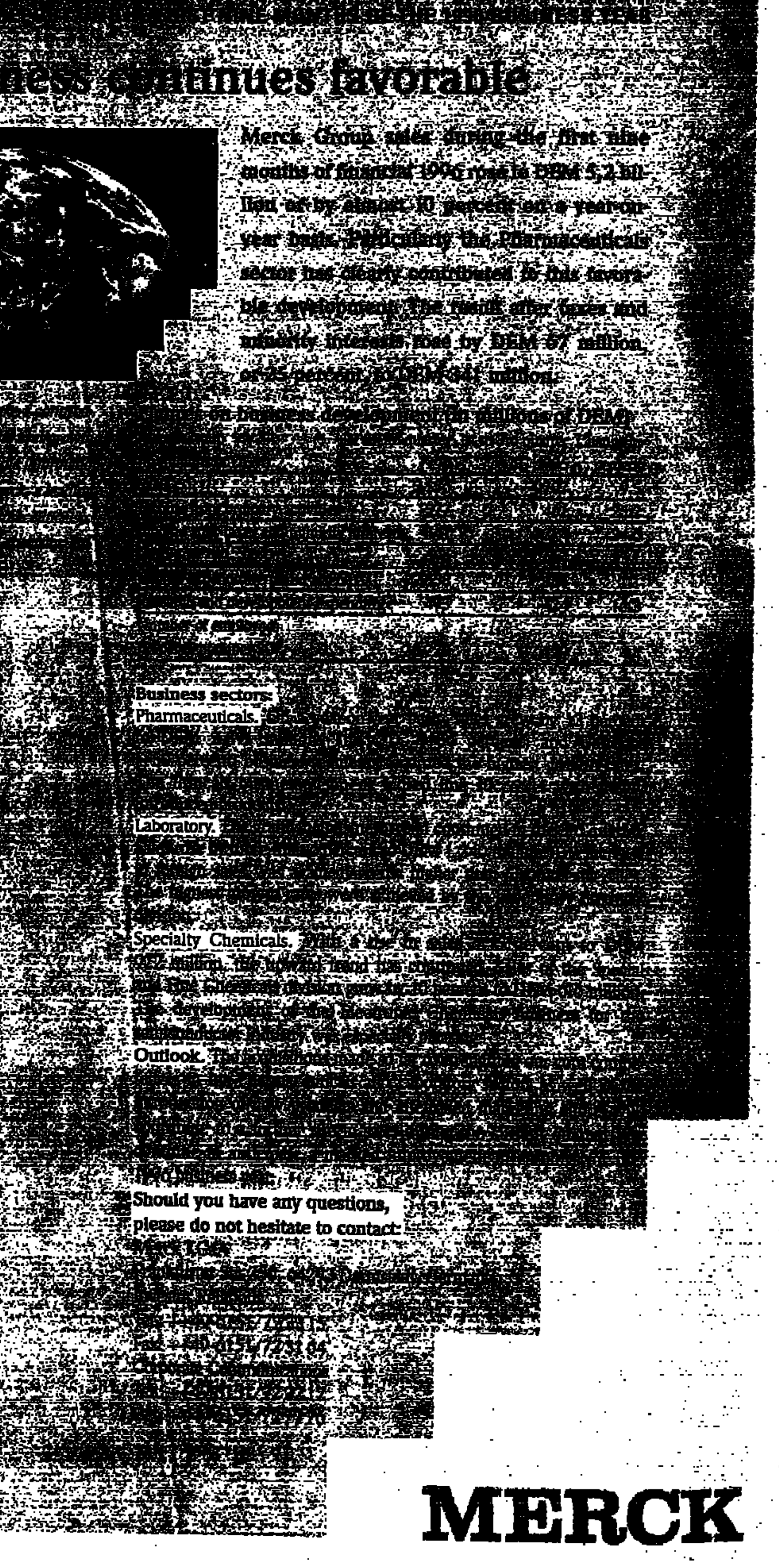
	% change in local currency † 1 Week	4 Weeks	1 Year	Start of 1996	% change sterling † Start of 1996	% change in US $ † Start of 1996
Austria	+1.85	+4.37	+16.96	+14.43	-1.57	+6.54
Belgium	+1.23	+4.50	+22.89	+16.54	+0.03	+8.26
Denmark	+1.69	+4.46	+28.15	+24.71	+8.43	+17.36
Finland	-0.40	+10.86	+13.12	+33.93	+16.56	+26.16
France	+2.52	+7.41	+26.86	+26.41	+9.37	+18.37
Germany	+2.42	+5.03	+24.89	+23.04	+5.86	+14.58
Ireland	+0.92	-1.19	+21.32	+19.82	+15.12	+25.69
Italy	-1.14	+6.72	+15.41	+6.74	+3.30	+11.80
Netherlands	+2.10	+7.73	+32.58	+28.95	+10.74	+19.86
Norway	+0.67	+6.06	+25.99	+23.76	+12.61	+21.89
Spain	+3.00	+8.95	+33.71	+29.27	+11.89	+21.11
Sweden	+1.17	+7.72	+33.58	+34.55	+22.74	+32.85
Switzerland	+0.35	+3.82	+19.81	+17.02	-4.47	+3.40
UK	+0.95	+2.37	+10.89	+9.78	+9.78	+18.82
EUROPE	+1.36	+4.85	+19.88	+18.05	+7.64	+16.72
Australia	+0.43	+2.54	+9.93	+7.62	+8.86	+17.83
Hong Kong	+1.44	+8.85	+37.86	+31.00	+21.03	+31.00
Japan	-0.48	+0.79	+7.11	-0.70	-16.84	-10.00
Malaysia	+0.56	+4.24	+30.68	+23.43	+14.56	+23.99
New Zealand	-0.46	+0.20	+5.82	+6.23	+6.84	+15.63
Singapore	-1.12	+8.42	+7.93	+0.51	-6.34	+1.37
Canada	+1.77	+8.32	+31.82	+30.57	+22.09	+32.14
USA	+1.16	+7.53	+23.63	+22.50	+13.18	+22.50
Mexico	+0.10	+1.17	+19.83	+17.45	+5.91	+14.63
South Africa	+0.06	-4.55	+10.83	+7.00	-21.80	-15.36
WORLD INDEX	+0.86	+5.20	+19.18	+15.78	+4.24	+12.82

† Based on November 29th 1996. © Copyright, FTSE International Limited, Goldman, Sachs & Co and Standard & Poor's. 1996. All rights reserved.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

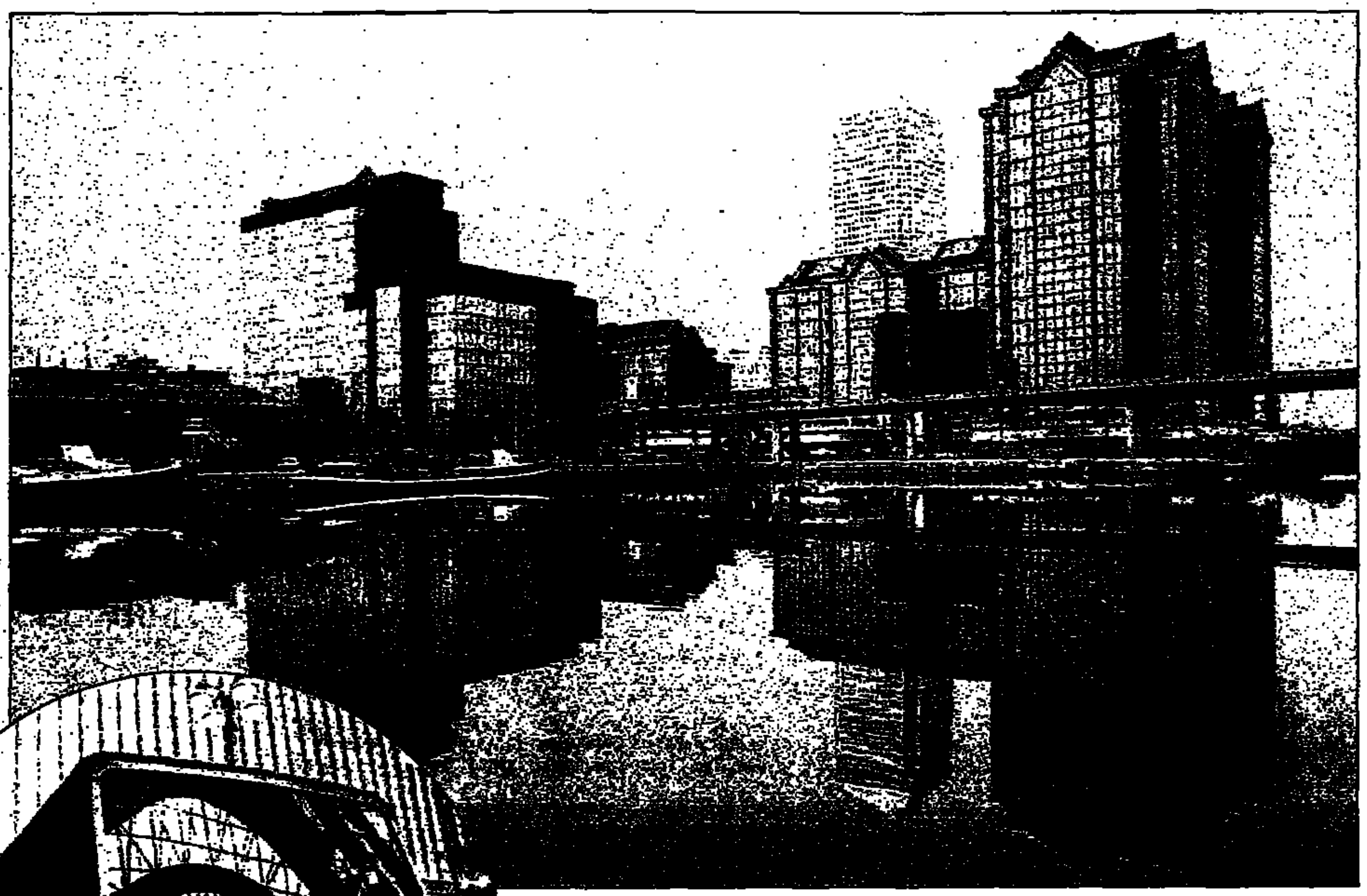
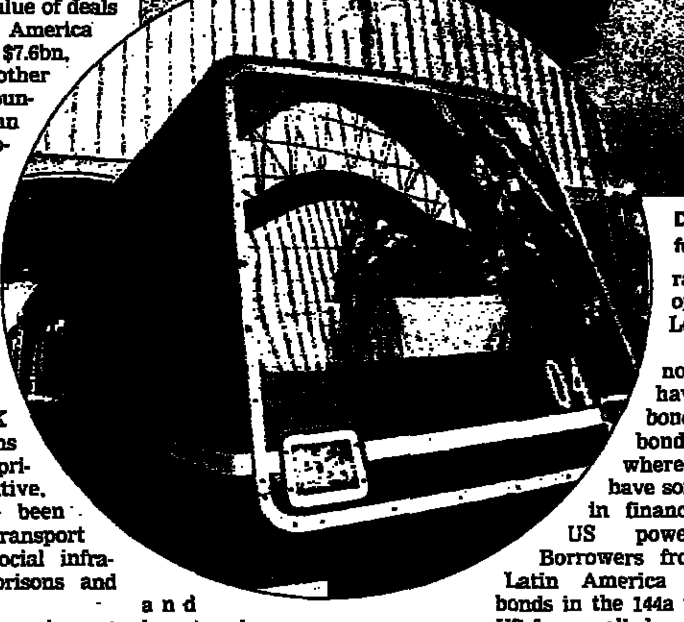
NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY NOVEMBER 29 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY NOVEMBER 28 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	223.91	0.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria (24)	185.94	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (27)	226.42	0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil (28)	179.94	0.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada (116)	196.15	0.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (33)	338.60	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland (24)	236.01	0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France (90)	212.37	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany (59)	187.56	0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (59)	507.89	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Indonesia (27)	220.03	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (16)	321.14	0.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy (58)	82.40	0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan (480)	130.44	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (107)	601.51	-0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (27)	1187.33	0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherland (19)	326.89	0.9	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (15)	82.11	0.3	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (35)	261.90	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Philippines (22)	198.11	1.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (43)	412.81	-0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (43)	328.14	-0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (37)	200.06	0.7	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (48)	414.61	1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (37)	244.01	-0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (45)	115.54	1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (213)	273.93	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (623)	307.79	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (794)	281.50	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (729)	234.45	0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (137)	311.68	0.8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (876)	157.76	-0.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1598)	186.61	0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (739)	301.15	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (507)	208.44	0.6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (396)	319.22	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1811)	191.78	0.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2221)	213.32	0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1954)	274.83	0.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2434)	228.23	0.1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]



INTERNATIONAL PROJECT FINANCE

In the past three years the scale and number of infrastructure projects worldwide have increased sharply.
Richard Lapper reports

Risks grow as market expands

Docklands Light Railway: the City Greenwich Lewisham rail link has been partially funded by a project finance bond

Deregulation, privatisation and rapid economic growth in the developing world are driving activity in the international project finance market to new heights. Banks are lending money for an increasing range of power, transport and infrastructure projects on a so-called non-recourse basis, which means that in the event of a default, they have no claims other than on the assets of the project itself.

At the same time, project developers and sponsors are becoming less dependent on the syndicated loans and export finance facilities which once underpinned the market, and are turning to a much broader range of local and international banking and capital markets for financing.

Recent growth has been sharp. "In the past three years the scale and number of infrastructure projects worldwide have doubled each year," says Geoff Haley, partner and head of infrastructure at SJ Berwin, the London law firm. According to IFR Project Finance International, a specialist publication, the value of loans and bonds raised for projects and not backed by official guarantees rose by 53 per cent to $27.1bn in 1995, compared to $17.7bn in 1994.

The main driving force for these developments has come from Asia, where very rapid economic growth is putting the existing power and transport infrastructure under intense strain. IFR's figures show that in 1995 the value of project deals in Asia, including Australasia, jumped by more than 100 per cent to $9.3bn, with more than $2bn of loans for Indonesia and more than $1bn in the Philippines.

Elsewhere, the value of deals in the US and Latin America rose from $2.9bn to $7.6bn, with Colombia another popular developing country market. John Watkins, head of project finance at Japan's Sanwa Bank in London, points to "significant additional activity" in the power and telecoms sector this year in Asia, especially in Indonesia and Thailand. The pace has also been picking up in the UK where, under the terms of the government's private finance initiative, private funds have been raised to finance transport developments and social infrastructure such as prisons and hospitals.

New capital has come in part from the syndicated loan market. With competition compressing margins on conventional lending business, a growing number of banks has been attracted by the somewhat fatter margins available from project financing. On some facilities, as many as 100 banks are participating. Developers have also been turning to the bond markets to raise funds.

Worldwide, interest rates are still low by historic standards and investors have been keen to secure the higher yields available from project finance bonds. A genuine cross-border market for project finance deals has yet to emerge - there have been no attempts yet to raise project finance though eurobonds. But borrowers are making selective use of the bigger national markets. In the UK, for example, sponsors turned to the bond market for funds for a number of deals, most recently raising £165m to finance a new railway development in London.

A number of non-US issuers have raised bonds on the US bond market, where investors have some experience in financing domestic US power projects. Borrowers from Asia and Latin America have issued bonds in the 144a market in the US for so-called qualified institutional investors. For example, earlier this year the company building the new El Dorado airport in Bogota, Colombia, raised $116m with a 15-year bond secured against revenues from landing fees.

Standard & Poor's, the international credit rating agency, said in July that the portfolio of rated debt raised to fund projects has grown from $11.5bn in July 1995 to $16bn in June this year, with most of the growth occurring in Asia and Latin America. S&P estimated that an additional $5bn of project debt could be rated before the end of this year.

At the same time, a wider range of borrowers has come to the private debt market. This August, for example, the Chinese coastal city of Zhuhai raised $200m through a private placement backed by revenues from a municipal highway.

Investors have also backed a number of funds set up to provide equity financing for selected projects.

An important related change is that the public sector, in the form of the government-owned export credit agencies and the multilateral banks, have begun to play a more flexible role. Over the past two to three years ECAs have begun to provide backing to non-recourse financed projects, often through the provision of political risk insurance. The multilaterals, particularly the World Bank and the International Finance Corporation, its private sector funding arm, frequently lend to or invest in projects alongside private groups. Additionally, private sector insurance groups are also providing longer-term political risk insurance, with some prepared to consider cover for more than five years.

"Ten years ago it was basically the syndicated loan market and sometimes export credit played a role," says Kevin Files, head of project finance at HSBC Investment Bank in London. "Now, for every large deal a wide range of options is considered. The decision-making process has changed from fitting the project to the bank market, to seeing which of the range of financing markets is suitable for the project."

With more capital available developers and their financial backers are able to consider much bigger financings. The size of individual projects has been steadily rising with power, mining and transport projects frequently exceeding $1bn. Mr Files says that because there is more capacity in the market "you can do bigger deals. We would be comfortable with handling a financing of several billion dollars provided we thought we could access a broad range of lenders and investors".

The broader range of financing means that risk is spread more widely, but project sponsors and their backers argue that they are also becoming better at managing risks. Pointing to the emergence of facilities management businesses, advisers say the private sector is now more capable of assessing and identifying risks. "In the past a lot of these risks were hidden in the public sector," argues Mr Haley at SJ Berwin. "Now risks can be properly assessed and priced."

"We are finding that more and more of our work involves identifying risks and advising on their allocation rather than on producing plain vanilla documentation," adds Peter Gray, project partner at Linklaters and Paine, another London law firm.

However, this increased sophistication could well be put to the test as the market continues to grow. For one thing, rates on project finance loans are falling, partly in line with broader market trends, and conditions are becoming easier for some borrowers. Yet, at the same time risks are growing in some areas.

In a recent report Standard & Poor's warned that the declining cost of power, as a result of electricity deregulation and technological change, is testing the commercial viability of some projects. "Projects which made sense based on flat or slowly rising price assumptions are coming under rising pressure as power costs decline for both capacity and energy," says William Chew, analyst at S&P.

Sovereign risks are as big as ever. This is illustrated by last year's controversy surrounding the $2bn-plus Dhabol power project in India, which was halted by the Bharatiya Janata party-Shiv Sena government of Maharashtra well into the first phase of construction. But even in the developed markets regulatory or legal changes can present operators and banks with problems. In the US, for example, contracts signed by developers have come under legal challenge in the courts. As Mr Chew points out: "Political risk is not confined to emerging markets."

■ **Private Finance Initiative in the UK:** by Mark Suzman

Enthusiasm begins to mount

Political strife over the viability of PFI has slowly turned to consensus

Once dismissed as little more than creative accounting, Britain's Private Finance Initiative is starting to attract a growing number of true believers.

The four-year-old scheme – under which private sector companies are expected to design, build, finance and operate public sector projects – has already become the primary means of funding new capital projects from roads to prisons.

As PFI has progressed, political strife over its viability has slowly turned to consensus. Despite initial scepticism the opposition Labour party has now broadly embraced the idea, although it prefers the term "public-private partnerships".

Also, civil servants and private sector contractors alike are becoming steadily more enthusiastic as the first projects come to fruition. The International Monetary Fund has broadly endorsed the programme, and ministers are now confident that, like privatisation in the 1980s, PFI will eventually become the global norm.

Reflecting this, the government is already trying to expand PFI into areas such as hospitals and schools. It has so far agreed contracts worth more than £6bn and is aiming for £14bn in PFI deals by the end of the 1998/9 financial year.

But does it really work? Kenneth Clarke, the chancellor, insists that PFI promotes efficiency and stimulates investment flows, helping develop areas where full-scale privatisation is either inappropriate or not feasible, but the case is still unproven.

Because the government's cost of capital is always cheaper than the private sector's, critics of PFI say the concept is nonsense. To these sceptics, the initiative is driven primarily by the need to take capital spending off the balance sheet and thereby reduce the government's budget deficit without having to attack current programmes.

The underlying assumption of PFI is that efficiency gains generated by private sector construction and management will more than offset the extra cost of capital involved. Because the projects involve a significant transfer of risk from public to private sector, they also shelter the government from unforeseen mishaps such as the risk of protester action on roads.

The most important difference between PFI and traditional capital spending is that most of the money goes on service payments for the lifetime of the contract, rather than construction.

The Treasury estimates that the 1,000-odd potential PFI programmes so far identified by the Private Finance Panel, a government-funded ginger group promoting the scheme, have a combined capital value of £25bn. By contrast, the net present value of their cumulative service costs is between £40-£60bn.

That fact has led to additional concern about the potential of "silting up" future spending – if government departments are increasingly committed to hefty annual service payments for extended contract periods, it will soon start to limit severely their discretionary spending in other areas.

And even those who insist the theory behind PFI is sound admit that in practice it has proved more difficult than expected to get it up and running.

As a recent report on the scheme by an all-party committee of parliamentarians pointed out, if the benefits of PFI are so apparent "it is difficult to explain the slow progress of the initiative so far or why there is a clear presumption in favour of PFI as a means of procurement".

One of the biggest problems has been the convoluted bureaucracy involved in getting projects approved. To satisfy itself that a PFI deal does indeed provide "value for money" the Treasury insists that bids should include full costings against a public sector comparator.

This has frequently led to long delays while costing bidders millions in legal and other fees, often with no reward. As a result, some big companies have now refused to bid for any deals worth less than £30m.

Responding to this concern earlier this year the Confederation of British Industry published a detailed criticism of the PFI process. As a result, the Treasury has now attempted to streamline the bidding process while developing a series of new guidelines to simplify matters.

Those have been broadly welcomed by contractors, but difficulties remain, particularly in costing risk. In the health sector, for example, although around 25 projects to build new hospitals worth £20m or more have preferred bidders, and five more have managed Treasury approval, no contract has yet been signed.

In part, the problems have been attributable to the complicated structure of the UK's National Health Service which has raised bank concerns about the security of their loans in the event of the dissolution of a hospital trust. But an equally difficult problem has been trying to predict patient usage and other risks for the lifetime of the 25-30-year contracts required to pay off the projects.

Fazakerley prison, Liverpool, is one of PFI's successes

Although the government is confident it is just a matter of time before some successful hospital contracts are signed, analysts are worried that the problems show PFI is fundamentally inappropriate for some sectors. For example, schools or university residences might prove too small and difficult to negotiate to justify the expense of sorting out bids and contracts.

There are also growing concerns that the construction sector and its partners lack the human and financial capacity to deal with the vast range of projects available. Lawyers warn that there has been a noticeable deterioration in the quality of bids for new projects because consortia are unwilling to spend the necessary money. Also, as more and more capital is tied up in existing projects, less money is available for new ones.

To help correct this, the government has recently given permission for equity stakes in PFI projects to be sold on. That should allow cash-poor contractors to recycle capital while potentially creating a new investment class of "infrastructure-owning companies".

But all that will be some time in the future – and is dependent on the first wave of projects maturing successfully from construction phase to full operation.

■ **Banks:** by Rod Morrison

Switch to high risk areas

The demand for finance is huge but there are few experienced financiers

Margins on bank lending to corporations are wafer thin and in the need to achieve higher returns, many banks have switched into the high risk areas such as project finance. This has come at a time when the demand for project and infrastructure finance across the globe has mushroomed.

A heady cocktail, indeed. Will there be winners and losers in the scramble into project finance, as in any normal market, or will the sector as a whole take a bath, as the banking market has done in other sectors?

The calculation can be split into the following inter-linked areas; pricing, loan structures and the assumption of risks.

■ Pricing. The growing competition in the bank market for project lending mandates has led to an inevitable reduction in lending margins on loans. In some cases, the reductions are dramatic. A straightforward illustration is two loans arranged for Humber Power in the UK in 1994 and 1996. Margins tumbled.

On the first loan, the rates were 125 basis points over Libor pre-completion, 120 basis points post-completion of construction with a commitment fee of 50 basis points. On the second loan, the margins dropped to 105 basis points pre-completion, 80 basis points post-completion with commitment fees of between 25 to 37.5 basis points. The two deals are different; the first involves building a 750MW gas-fired and the second involves refinancing that loan and funding a further 510MW unit. But there are enough similarities for a comparison to be meaningful.

This is not to say margins have fallen across the board. Some of the UK Private Finance Initiative deals show some very healthy returns. On the prison deals, banks are receiving 140 basis points for taking the risk of the prison simply being available to take prisoners. Once a market is established, margins fall as banks become comfortable with a sector.

The impact is simply on profitability of assets. But lending competition is not simply confined to the banking market. The bond market is growing in importance. Bonds provide longer-term finance, 25 years or over, which is critical to the equity return of a project developer.

■ Structures. Increasing bank competition has allowed project developers to reduce the amount of covenants imposed on them in the loan documentation. In so far as this has reduced the legalistic nature of project financing, it is a good thing. Restrictive bank covenants governing every aspect of a developer's business create bureaucracy. One loan to a UK cable company was in breach of its covenants within two weeks of drawdown.

However, there comes a point where the strength of the structure becomes a valid concern. In the UK cable sector, cash flow multiples governing the amount of money which can be drawn down have increased from four to seven while the size of the riskier bridge finance, used while an operator remains cash flow negative, has increased to up to 25 per cent of a project loan and beyond. The strength of many of these loans will never be tested because the sector has consolidated into a few important operators.

Banks will always insist on a first charge over an asset but in the recent debt deal backing the Colt Telecoms network, banks were asked to lend to the same entity as the sub-ordinated bond holders. The banks still have first charge over the assets but the bond holders, who can trade their debt more easily, can put the entity into default. Previous deals had the bond holders lending to a different entity within the project structure.

■ Assumption of risk. Banks are constantly being asked to assume a different profile of risks as lending competition grows and the infrastructure markets themselves change. The power market, which has huge demands for project finance, is one example.

Banks have always taken construction risk. There are times when project sponsors offer guarantees during the construction period to cheapen finance costs.

Country risk has become a significant factor. In emerging markets, long-term power purchase contracts are available but the implicit risks are huge. The contracts will usually be given by financially stretched state-owned companies perhaps with a government counter guarantee. Payment is usually in US dollars. If a currency collapses, the payments would soar.

Alternatively, as the cost of producing power reduces globally, assets financed on outdated power purchase contracts might become "stranded" and local entities would be tempted to negotiate a cheaper deal.

In the developed markets, banks are now being asked to take price risk.

Until now, banks have taken market risks on natural resources and industrial projects. The key is that a select number of banks have become comfortable with the risk and the markets are free and cannot be influenced by a few operators. The only sector where market risk regularly causes problems is road and rail infrastructure.

There is no reason then why banks should not take market risk in power in developed countries as long as the electricity trading market itself has developed. Indeed, not simply relying on purchase contracts can impose a useful discipline.

Perhaps a bigger worry is if the demand for finance is huge but the supply of experienced project financiers is limited. This is easy on the syndications department of the loan-arranging banks in the short term, but very risky in general in the long term, particularly as more and more look to project finance.

Rod Morrison is editor of IFR Project Finance International.

■ **Equity investment:** by Andrew Taylor

Investors spoilt for choice

Private sector debt and equity sunk into infrastructure have increased

A "For sale" notice seems to be hanging over much of the world's infrastructure as governments, regional and local authorities seek private investment to pay for a new generation of power stations, roads, sewerage, water and telecommunications systems.

International banks, operating companies and equity investors appear to be spoilt for choice as they consider a welter of ambitious investment and privatisation proposals.

The reality may be that grandiose plans still heavily outweigh schemes which stand a credible chance of being financed, built and operated profitably, but progress is being made.

The volume of private sector debt and equity sunk into infrastructure has increased sharply in the mid-1990s as governments have grasped that the demands for better communications, power and water cannot be met solely from the public purse.

Total financing of new private infrastructure projects in developing countries is estimated to have doubled from $17bn to more than $35bn between 1993 and 1995 according to the International Finance Corporation, the private investment arm of the World Bank.

A further $10.1bn of infrastructure assets were sold in 1994 as a result of privatisation of 75 companies in 30 countries says IFC.

The shift in investment from the public to the private purse is providing new opportunities. These include:

■ International operators such as Enron, the US power group, which owns 50.1 per cent of East Java Power Corp which last month signed a 20-year power purchase agreement with Indonesia's state-owned electricity company, Perusahaan Listrik Negara.

■ Domestic equity partners which might be operating partners or local investors. Pasuruan Power Company is Enron's Indonesian partner for the $508m East Java plant

■ International construction companies and equipment suppliers seeking to win new orders as well as taking a stake in the completed investment. UK construction group John Laing paid £6m in 1993 to take a 2⅔ per cent stake in Y.T.L Power as well as building two power stations costing £650m for the Malaysian private operator.

Siemens of Germany and Zurich-based Asea Brown have led the way among power station equipment suppliers, taking strategic stakes in private consortia which have won concessions to sell power in developing countries.

John Watkins, the London-based head of project finance at Sanwa Bank, said: "Operators, construction companies and equipment suppliers are obvious candidates for equity investors. The international financial sector also is showing increased interest in this sector."

Tailor-made infrastructure funds have been established by the likes of AIG, the US insurance group, to invest in private projects.

Earlier this year, Allied Phillip Capital Management, a Kuala Lumpur-based joint venture between Allied Irish Bank and Phillip, a local stockbroker, announced it planned to seek $200m for Malaysia's first listed infrastructure fund.

AIG and GE are expected to be important sponsors of a $1bn Latin American Infrastructure Fund planned to invest in privatisations as well as green field projects.

Hong Kong-based Hopewell Holdings, owned by Gordon Wu, was a pioneer investing in a string of south-east Asian transport and power projects.

Hopewell's power interests were subsequently floated off in a separate company, Consolidated Electric Power Asia (Cepa), for which Southern Company, the Atlanta-based power group, recently agreed to pay $2.7bn for an 80 per cent stake. Under the terms of the deal Hopewell will reduce holdings in Cepa from 60 per cent to between 12 and 20 per cent.

Cheung Kong Infrastructure, another Hong Kong-based company investing in Chinese privately-financed infrastructure projects, was oversubscribed more than 20 times when it was floated off from the Cheung Kong Group earlier this year.

Sanwa Bank says that the growing range of equity investors, including new-style infrastructure funds, indicates that this sector of the investment market is starting to mature.

The level of equity demand by lenders to infrastructure projects, however, varies considerably according to the level of political and financial risk private sector operators are expected to assume.

Equity in premium projects in low risk countries could be as low as 20 per cent, but would be higher elsewhere, says Sanwa. In some cases, public sector finance might be used to bolster the economics of projects and ensure a viable return for private sector investors.

Since 1966, the International Finance Corporation has agreed to provide support of $3.1bn for 148 projects costing $28.6bn in 40 developing countries. Of the total development cost, 61 per cent was provided by debt and 39 per cent came from equity investors. Foreign sponsors provided a third of the equity, local sponsors a quarter with the balance coming from internal cash generation.

The IFC says local equity can come from privatised companies or from existing private sector companies, such as RPG in India and Socma in Argentina which have diversified into infrastructure provision.

International operators and lenders feel more comfortable if there are local groups among equity investors, says the IFC. It stresses that private operators tend to be more efficient than former state-owned monopolies. The range and scope of equity investors in privately financed infrastructure projects seems likely to increase.

■ **Capital markets:** by Conner Middelmann

Bond financing catches on

Capital market borrowing is gaining popularity as a way of raising project finance

Bond issues and private placements are becoming an increasingly popular way of raising project finance – a commodity traditionally provided by commercial bank and multilateral agency lenders.

However, the much heralded issuance boom has not materialised and bonds make up just a fraction of overall project financing. This is partly because of many investors' lack of experience with these types of investments, as well as some of the limitations inherent in capital market borrowing.

"There is clearly substantial scope for bond financing, but it should be seen as complementary to bank lending rather than as a replacement," says Robert Rees, director capital markets at BZW.

Recent bond financings in the UK have included a £165m issue of 25-year bonds for Road Management Consolidated, backed by a guarantee from US monoline insurer AMBAC, and a £165m issue of 24-year bonds for the City Greenwich Lewisham Rail Link, an extension of London's Docklands Light Railway – the first PFI bond without any credit enhancement. Bond financing has been more widely used in the US, and is also spreading slowly to the emerging markets.

There are some significant advantages to capital market financing.

First, and depending on location and contractual structure, bond issues can have maturities of up to 30 years, whereas banks tend to lend for periods only up to 15 to 18 years. Indeed, many institutional investors such as life insurance companies or pension funds are keen on instruments that match their long-dated liabilities.

Many institutions have been showing greater interest in them as yields on corporate and sovereign debt have declined sharply over the last 18 months. In their hunt for extra yield, their credit-awareness has increased, observers say.

"In the past, European investors haven't been as credit oriented as their US counterparts – they have been deriving most of their returns from currency and interest-rate plays while buying double- and triple-A-rated bonds," says Tom Connell, head of European utility and infrastructure ratings at Standard & Poor's. "But the investment industry is getting more competitive and fund managers are under greater performance pressure, so they are increasingly looking at lower-rated credits for extra yield."

Another advantage for borrowers is that bond financings have more streamlined covenant packages that give greater room for manoeuvre to the borrower than bank loans.

The flipside of this is that, if any problems arise at any point during the life of the project, or the borrower needs extra money, banks may be more supportive than bond investors.

"Being much closer to the project, banks tend to be both flexible and supportive because they know the only way they can sort out the problem is to help the borrower – it's an active partnership," says Rob Halliday, director of project advisory at NatWest Markets.

There are some other disadvantages to bond finance.

In projects with long construction periods, contractors do not need all the money up-front.

Moreover, markets can be very unpredictable and borrowing windows can slam shut very quickly – often due to shifts in sentiment, rather than any reason related to the project.

"In project finance, the deliverability of financing is key – if you rely on a successful bond issue as a best case scenario, that's a fairly risky strategy," warns one banker.

Nevertheless, many bankers feel that, over the long term, the attractions of bond financing will increasingly assert themselves. "Many of these projects are bog-standard utility investments that are crying out to be funded by maturities reflecting the economic lives of the assets," says S&P's Mr Connell.

■ **Multilaterals and ECAs**

Powerful sources of support

ECA or multilateral facilities afford crucial protection against political uncertainties

Stand-alone private project financing may well, in some circumstances, be the most appropriate funding mechanism for infrastructure and other schemes in the industrialised countries. But when it comes to developing countries, commercial banks and private investors still find themselves dependent, to a greater or lesser extent, on two powerful sources of official support – national export credit agencies (ECAs) and the multilateral development banks.

Using ECA or multilateral facilities may add time and expense. But they give crucial protection against the political uncertainties facing holders of equity and debt in markets where governments may be unstable, prone to changing legislation or lacking foreign exchange.

"Commercial risks can be assessed and accepted by banks, but where sovereign risks exist the guarantees provided by ECAs are an indispensable form of protection," says Robert Scallon, export finance director, structured finance, at BZW, which is due to provide the first UK-backed export credit for Uzbekistan.

In an increasing number of cases ECAs and multilaterals combine in the structuring of a project.

Access to official support has a "multiplier" effect on the availability of commercial lending capacity for non-OECD countries. The Berne Union – the international ECA "club" – estimates that financing and guarantee facilities extended by members in 1995 were worth about $400bn, much of this for large capital projects.

According to Martin Copeland, manager at Deutsche Morgan Grenfell, "ECA support is absolutely critical in countries for which there are no substantial credit limits available at banks".

A combination of ECA and multilateral facilities have provided crucial support for the growing number of big-ticket private projects making use of limited recourse financings, especially in Asia. These involve techniques dependent on reliable cash flows from long-term commercial contracts that are usually underpinned by indirect government guarantees. A typical example is the raising of $339m in offshore commercial debt for a 586MW independent power generation scheme at Uch, in Pakistan, where the co-arrangers, ABN Amro and DMG, structured lending with backing from the World Bank and its private sector arm, the International Finance Corporation (IFC), and the Export-Import Bank of the US (Exim Bank).

The ECAs' growing ability to handle complex projects was underlined by the first large non-recourse power financing in the Philippines, the $1.4bn Sual power project, covered by the UK's Export Credits Guarantee Department (ECGD), the French insurer Coface, Eximbank and the IFC.

"This represented the largest non-recourse financing in the Philippines involving more than one ECA, but was wrapped up in around nine months, demonstrating the effectiveness of the new project financing teams at the agencies," says Richard Cole, director, project and export finance team, at HSBC Investment Bank. HSBC lead-arranged commercial financing worth almost $446m with ECGD taking a significant lead by providing 100 per cent political risk cover during the pre-completion stage.

The World Bank announced a significant shift into project finance when it revamped and expanded existing facilities into a guarantee programme that has mobilised more than $1bn to date, leveraging a further $9bn in co-financing.

Designed to cover a private scheme's political risks – for example, where debts are not serviced because of government interference or changes in laws – the guarantees leave private financing sources to assume risk, such as contractual problems or dividend shortfalls.

At Uch, it was the shelter of a $75m partial risk guarantee that gave commercial lenders the comfort to extend the maturity of their lending under the IFC's B-loan to 15 years. This compared favourably with the maximum 12-year financing tenor secured in 1994 for the long-awaited 1,292MW power project at Hub River, also in Pakistan. The World Bank guarantees for both Hub and Uch covered three key areas for the concessionaires – fuel supply, power purchase agreements and foreign exchange commitments. Not all project developers are happy at the service provided. Criticism over protracted implementation times and excessive red tape has recently been voiced by such leading edge US developers at Enron Corporation and CMS Energy. In response, bank officials argue that the guarantee programme is gathering pace. Whereas Hub took six years to put together, "the time taken for completion at Uch was one-third of this," says Rama Chopra, World Bank director for co-financing and project finance.

The Asian Development Bank and other regional multilaterals have sanctioned the use of guarantees against contractual and political risks.

The European Bank for Reconstruction and Development has a guarantee programme, although it has tended to use its preferred creditor status to attract banks into projects.

Other sources of support are also increasing. The World Bank's Multilateral Investment Guarantee Agency (Miga) has grown steadily as private investors have increased their exposure to non-OECD markets. But there remains a lack of capacity to meet the demand for support for private capacity in the market.

Alan Spence and Kevin Godier

Alan Spence is Editor of, and Kevin Godier writes for, International Trade Finance, a bimonthly Financial Times newsletter.

■ **Europe:** by Andrew Taylor

Entrepreneurial skills needed

Progress may be uneven but privately-financed infrastructure looks here to stay

The entrepreneurial skills that built and financed 17th century canals and bridges in France and railways in 19th century Britain are needed again as Europe seeks to tap private sector investment to modernise its transport, energy, telecommunication and water systems.

Central and regional governments in western Europe lack the funds to finance large-scale capital investment and maintain essential services and social security payments.

Efforts to satisfy the criteria for economic and monetary union under the Maastricht treaty can only restrict further the availability of public funds to pay for new infrastructure.

In central and eastern Europe, economies emerging from state control also lack the strength to re-invest in infrastructure suffering from decades of neglect and bad management.

The private sector provides an alternative source of finance but can prove difficult to tap given the conflicting needs of the state to provide low cost universal services and of business to generate an acceptable financial return.

Britain through the privatisation of its power, water, telecommunications and railway systems is providing a lead.

Stephen Uhlig, director of Deutsche Morgan Grenfell, which has provided project finance for several privately-financed European infrastructure projects, says: "It has been easier to attract private investment for energy and telecommunication projects, where there is an established world market for private sector capital investment, than for roads and railways.

"Financial and political imperatives can conflict on transport projects making them much more difficult to fund by the private sector."

Banks and equity investors it seems are happier to risk capital in power stations which sell energy under predetermined agreements to the state, or direct to international manufacturing companies.

The risk of volatile demand and tariff movements are reduced and returns look more attractive when payments are made in hard currency by an established tied international user.

Deutsche was a co-arranger this spring of a L731.8bn syndicated loan for a 350MW gas-fired combined cycle power station at Rosignano in Tuscany. The plant will provide about 1 per cent of Italy's electricity production generating some 400 tonnes of steam per hour which will be used to increase soda ash production at Solvay & Cie's Rosignano plant.

Global lead arranger loans by sector (1995)

Sector	$m
Power	8,742
Telecoms	5,492
Oil and gas	2,399
Infrastructure	1,992
Industrial	1,490
Mining	1,137
Petrochemicals	923
Leisure	734
Others	417

Source: IFR Project Finance International

Tractebel the private Belgian power producer is taking most of the equity stake in the project through Powerfin, its 60 per cent-owned subsidiary.

Liberalisation of European mobile telephone networks has also attracted a growing number of investors willing to provide project finance.

Deutsche earlier this year arranged a DM2.7bn funding for E-Plus Mobilfunk, Germany's third largest digital mobile phone network in which German industrial groups Veba and Thyssen each own 30.18 per cent, Bell South 22.5 per cent and Vodaphone 17.2 per cent.

Sanwa Bank has also provided project finance for European power and telecommunications developments. It was a member of the E-Plus banking syndicate and was part of the L1,800bn financing of Mobile Omnitel in Italy, which last year started competing with the state-controlled Telecom Italia Mobile.

John Watkins, head of project at Sanwa's London office, says: "There are almost no European countries where there is not at least one private sector mobile phone company. Private investment in the power sector, outside of the UK, is most advanced in southern European countries like Spain, Portugal and Italy. The state by comparison is entrenched in the French power sector although there are a few signs of some possible future liberalisation in Germany."

Sanwa was among a number banks which this autumn provided £500m for a combined cycle gas power project at Tapada in Portugal to be operated under a 30-year concession by Powergen, the UK operator.

It also was part of a syndicate of banks providing project finance for the Pta12bn Elco Gas integrated coal gasification power station in central Spain in which the private investors are National Power of the UK, RWE of Germany, EDF of France and ENE and Iberdrola of Spain.

Transport projects are much more difficult to finance. Many Europeans are unaccustomed to being charged to use a road. Politicians remain reluctant to court unpopularity by introducing road tolls.

Countries where motorway tolls are levied have been unable to levy charges which would generate an acceptable return to lenders and investors.

Toll tariffs are established under government price controlling powers in France. The country was forced to renationalise three out of four private finance operators following the oil price rise in the early 1970s. Cofiroute, the only survivor, operates under a guarantee that the government will reimburse lenders if it fails.

The Spanish government similarly was forced to step in to rescue privately-financed motorway operators. European railways, even more than roads, remain part of an entrenched state financing and operating structure.

The UK, which already has privatised much of the old British Rail network, is a front runner in this sector. Public money also has been made available to augment private investment for the much needed £3bn Channel Tunnel Rail Link.

Federal Trust, a London-based think tank, which this autumn published a report, Private Partnerships and Public Networks in Europe, argues that many of the ambitious road and rail schemes planned under the European Commissions Trans European Networks (Tens) programme will need some form of public finance if they are to be viable.

It recommends the establishment of a European Infrastructure Agency to coordinate the efforts of the European Commission, European Investment Bank, the European Bank for Reconstruction and Development (EBRD) and other member government agencies to support private sector initiatives and reduce costly planning delays.

EBRD played an important role in the financing by the private sector of the upgrading of the M1/M15 motorway link between Budapest, Vienna and Bratislava. Deutsche Bank advised the government on the financing for eastern Europe's first private sector tolled motorway.

British experiments with Design Build Finance Operate (DBFO)roads, whereby the state pays a shadow toll on the number of vehicles using a stretch of motorway, is also exciting interest in a number of continental European countries.

Finland is currently considering a DBFO format for a 60km privately-financed road between Helsinki and Lahti. Portugal and Spain also are pondering DBFO solutions.

Progress may be uneven but privately-financed infrastructure looks here to stay.

■ **Latin America:** by Stephen Fidler

Opportunities abound

Despite constraints, the market is willing to accept bigger deals than before

Project finance opportunities in Latin America are expanding rapidly, but the number of completed projects is growing much more slowly. The reason is largely that the region is still considered riskier than most other parts of the world.

Only Chile and Colombia are still considered investment grade risks by the main US rating agencies. Outside these two countries, the possibility of finding finance from the international capital markets is limited and most projects must rely on banks, which can afford to be selective.

"People don't forget that Latin America was the home of the two past crises in the emerging markets: the debt problems of the 1980s and last year's Mexico crisis. It means investors see larger risk in Latin America than in Asia, which shows up in differences in pricing," says Oscar Manero, executive director of SBC Warburg in New York.

Nonetheless, yields on the more popular projects in Latin America have declined significantly in recent years with Chile taking the lead. Project finance paper from this country is so scarce that although single-A rated, debt can be raised at levels approaching a better double-A credit in the US, he says.

The general view of the area means that long-term debt is still a rarity. However, says Kathy Tucker, managing director in charge of project finance in Latin America at Chase Manhattan in New York: "The trend in Latin America has been to accept increasingly longer tenor and new benchmarks are constantly being set."

This has meant, for example, 10-year debt part financed the El Abra copper mining project in Chile last year, and an 18-year tenor was agreed on debt for the Petropower project in Chile this year. In Colombia, the Ocensa oil pipeline project included 10-year debt. "Prior to these, seven years was about the limit," she says.

The absence of regional capital markets to fund the local currency portions of projects is also a constraint. Only Chile again, with its well developed pension funds, has the ability to do this. On the other hand, says Richard Edwards, head of global project finance and advisory at Chase Manhattan, "equity is generally easier to locate than debt".

The Mexico crisis and the failure of some privately-funded projects there – in particular toll roads – have made banks more selective, too, about the type of business they are willing to finance. With Latin America's infrastructure needs estimated by the World Bank at something like $60bn a year, this suggests that the public sector – in the guise either of national governments, export credit agencies or the multilateral lending agencies such as the World Bank, its International Finance Corporation subsidiary, and the Inter-American Development Bank – will still be needed in many infrastructure projects, for example to cover the political risk of projects.

While private financiers generally praise the multilateral agencies for their willingness to consider new approaches, there is still frustration at the bureaucratic processes which slow down project approvals.

The experience of the Mexican toll roads and of other project financings has encouraged bankers to fight shy, even more than before, of any project they see as having a "social" dimension or projects where potential consumers have a "free" alternative. The peso devaluation also provided a timely reminder of currency risks. "We are not going to build many bridges any more," said one banker. Many banks have also put water and sewerage projects off limits for the same reasons.

Fortunately, every bank's definition of what constitutes a "social" project is slightly different. The lessons of Mexico have allowed Chile, for example, to structure road finance which does satisfy project lenders.

Global lead arranger loans by country (1995)

Country	$m	Country	$m
United States	4,306	Canada	198
Australia	3,780	Hungary	181
United Kingdom	2,839	France	172
Indonesia	2,086	Kyrgyzstan	170
Colombia	1,557	Chile	167
Philippines	1,097	Poland	128
Hong Kong	954	Saudi Arabia	100
Italy	940	Pakistan	97
Argentina	735	Venezuela	90
Others	720	Malaysia	60
Netherlands	632	Turkey	59
Germany	510	China	54
Spain	358	South Africa	50
Mexico	278	Russia	32
Thailand	272	Costa Rica	23
India	272	Norway	16
El Salvador	267	Ghana	15
Sweden	263	Czech republic	8

Source: IFR Project Finance International

"You have an important group of deals in infrastructure and transportation that is becoming possible: airport expansions in Chile, deals in Colombia, Ecuador and Mexico; power deals all across the region and some attractive opportunities in Brazil, for example, in the privatisation of the 'B' band of cellular telephones," says Mr Manero, of SBC Warburg.

In Venezuela, where the government has reverted to a more market-oriented economic policy, there is also interest in financing the opening of the oil industry. Some $7bn-$10bn of new projects are expected in the next five to seven years.

Meanwhile, in Peru, banks led by Chase are looking into the financing of the Aguatia power plant. If successful, this would be an important breakthrough, given that Aguatia is a so-called merchant plant that would not supply electricity under contract but instead would feed the grid at the prevailing market price. "Not even in the US have you been able to structure a financing of merchant plants," said Mr Manero. But if a way can be found, it would have important implications for other countries such as Chile, Colombia and Argentina, where "spot" markets in electricity are being developed.

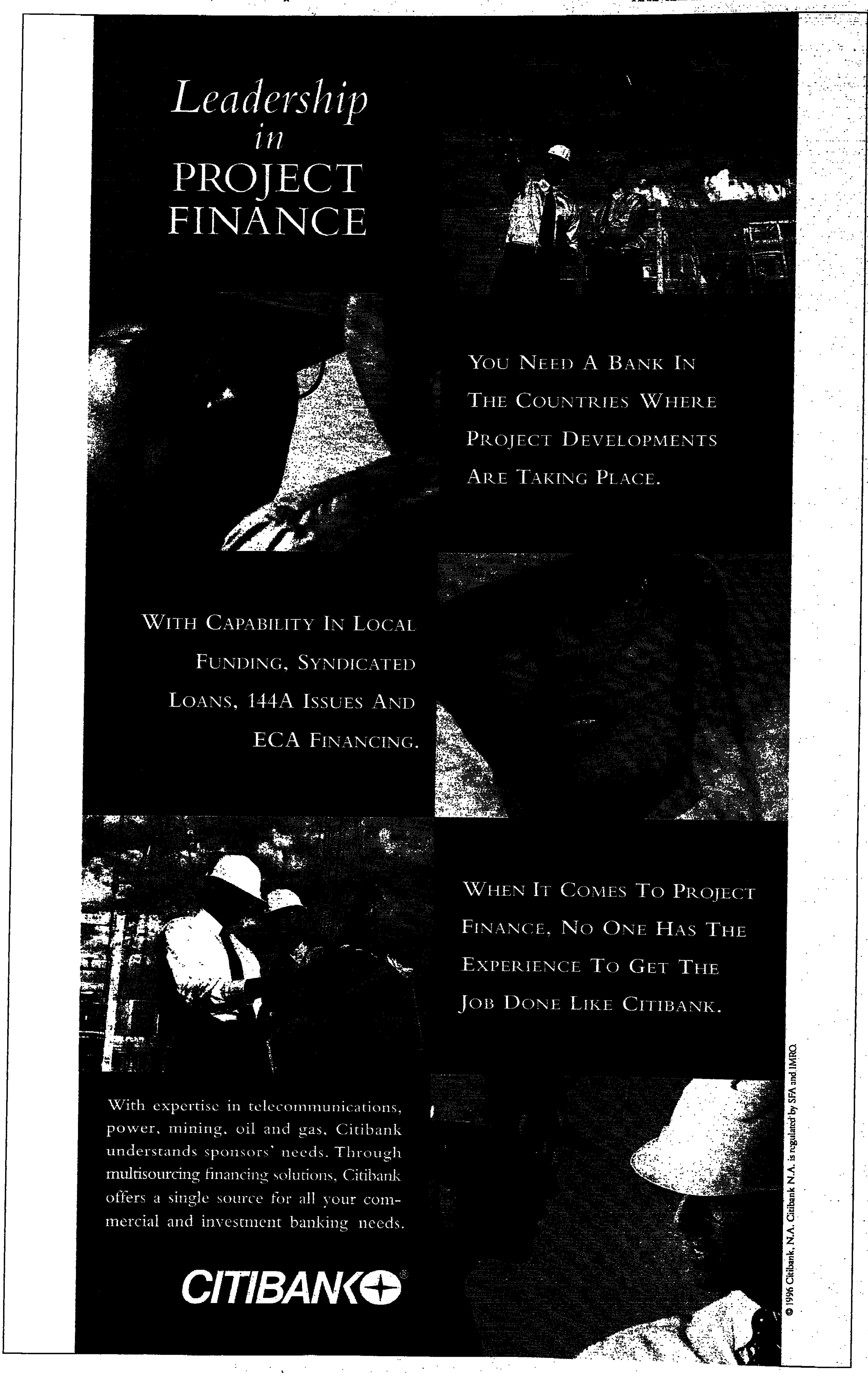
A long-awaited Mexican power financing – Samalayuca II – finally emerged this year, after a four-year delay, though only with an extensive public sector contribution, including from the US Exim Bank. Mexico continues to be a frustrating market for bankers.

Meanwhile, other more traditional areas for project financing are also growing in importance. The liberalisation of mining codes across the region to encourage private sector investment has brought a rapid expansion in mining investment.

In all these areas, the attitude of governments remains crucial. The difficulty of financing the Samalayuca power plant was multiplied by the fact that the feedstock was being supplied by a monopolistic state-owned company, Pemex, and the electricity being bought by a monopsonistic state-owned company, the electricity monopoly CFE.

In Brazil, where state and federal governments are undertaking an important utility privatisation effort, bankers remain cautious because of a lack of clarity in the regulatory environment in which the new privately-operated companies will operate.

Despite such constraints, the market is willing to accept bigger deals. And although the popularity of the region is still partly linked to the current plentiful supply of liquidity in the US and elsewhere in the industrialised world, most bankers expect interest in project finance in Latin America to survive the next rise in US interest rates.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